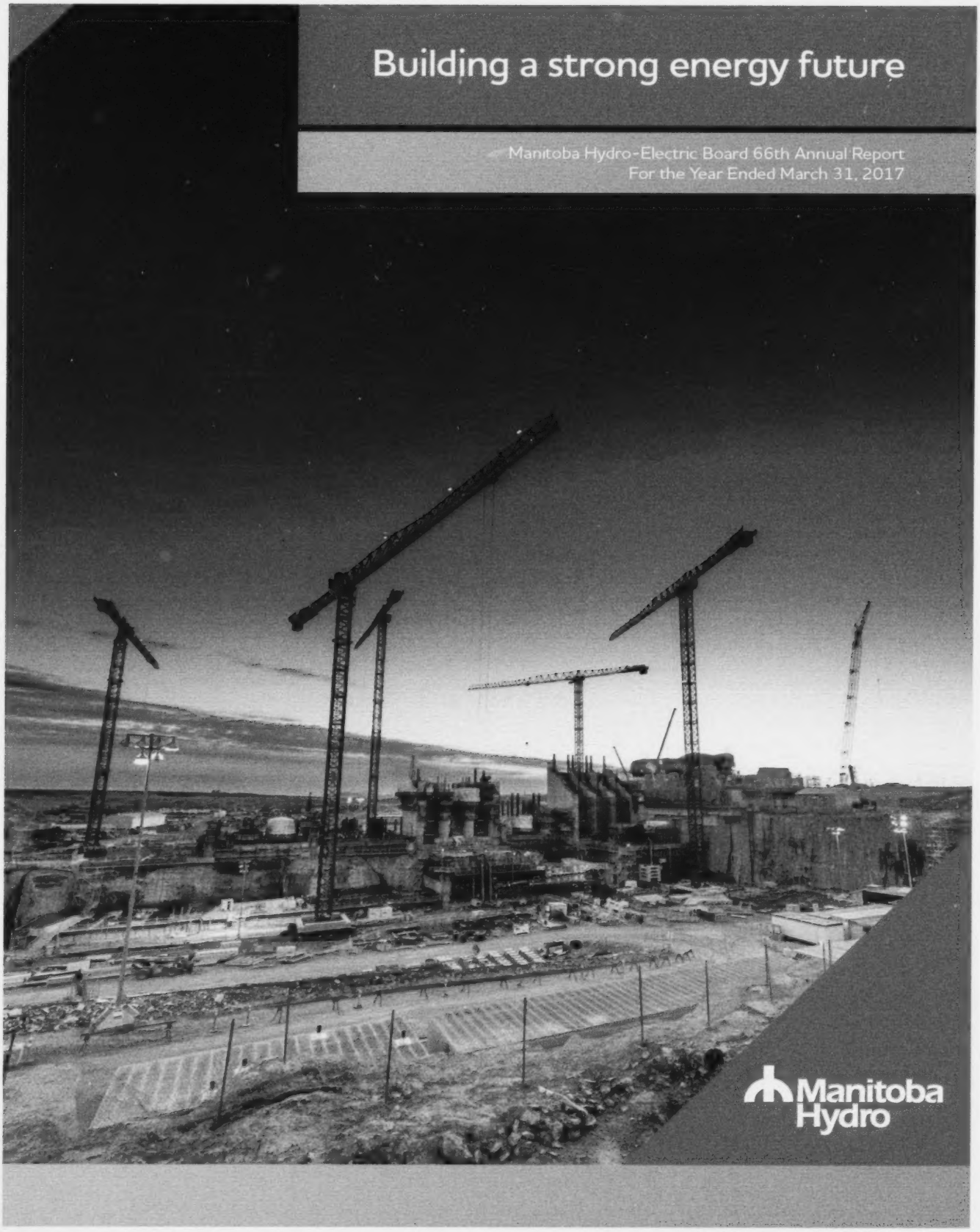
Building a strong energy future

Manitoba Hydro-Electric Board 66th Annual Report
For the Year Ended March 31, 2017



Manitoba Hydro

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Cover photo: Construction of the Keeyask Project powerhouse.

Chair's Letter to the Minister of Crown Services

July 28, 2017

Honourable Ron Schuler

Minister of Crown Services
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister,

I am honoured to present the 66th Annual Report of the Manitoba Hydro-Electric Board, together with the financial statements for the fiscal year ended March 31, 2017.

Since our appointment last May, my board colleagues and I have pursued the mandate letter issued by your office with the utmost commitment, working to fully understand, analyze and make recommendations on the future of Manitoba Hydro.

As our first order of business, we immediately initiated a strategic review of not only Manitoba Hydro's major capital projects but the business more broadly. Our review was data driven and supported by independent third party experts engaged by the board to support us and ensure we had the best advice possible.

The results of this review were troubling. Manitoba Hydro had initiated massive capital projects – the Bipole III Reliability Project, which had been directed along a more expensive western route, and Keeyask Generating Station – under conditions which would drive the corporation's debt-to-equity ratios to such a leveraged position that Manitoba's overall credit rating would be put at risk. Manitoba Hydro's debt is set to double. Manitoba Hydro also faces challenges in its export markets, the potential of increased interest rates, the chances of continued cost overruns on its very complex capital projects, and the ongoing risks a hydroelectric provider faces, such as the risk of drought. This combination of factors creates a serious circumstance which, in our view, needed to be addressed.

Prior decisions under a previous administration had created these conditions, but we cannot go back and change the past. We must focus on the future, and address the challenge Manitoba Hydro is facing. Working with management, we have taken action.

First of all we concluded that the Bipole III and Keeyask projects needed to continue. The Bipole III Reliability Project is required to protect our capacity to serve Manitobans and our export customers. And both projects are well advanced in their construction. Cancelling them now would not only incur very significant costs but also, in the case of Bipole III, create greater risk for our systems and decimate Manitoba Hydro's equity.

To complete these projects and restore an appropriate equity ratio at Manitoba Hydro we have put a 10-year plan in place to protect our ratepayers and, ultimately, the taxpayers of Manitoba from the risks which have been created. The plan has a particular focus on the period of greatest risk over the next five years as these very large capital projects are completed. This plan has called for some difficult decisions, such as the reduction of staff and streamlining of executive management at Manitoba Hydro. It also includes a new financial plan calling for 7.9 per cent increases to electricity rates for the next five years.

These were difficult decisions for our board but we believe they are best for both Manitoba Hydro and Manitobans. As a new board, we strongly believe that taking action to address the financial challenges and risks faced by the corporation is one of our key responsibilities and it may be the most important undertaking we have in front of us at this time. Throughout the course of this past year, we've endeavored to communicate the company's financial situation openly with Manitobans, holding public information sessions in several locations across the province in late 2016, for example.

We appreciate any electricity rate increase has an impact on customers, especially those with lower incomes or electric heat. In its recent General Rate Application, Manitoba Hydro has put forward a balanced plan that would require customers to pay more but also takes strong action to reduce the corporation's operating costs through a significant workforce reduction and by finding further operating and capital efficiencies. The board looks forward to the results of what will be a thorough review of the plan by the Manitoba Public Utilities Board over the coming months.

The corporation continues to work with customers and provide programs that enable them to reduce energy costs and manage their bills. While the provincial government is proceeding with legislation establishing a new energy efficiency agency, until the new agency is established and a transition of those accountabilities occurs, Manitoba Hydro will remain actively engaged with delivering demand side management programs.

This has been a challenging year for Manitoba Hydro as we have worked to understand the full impact of prior decisions, and the risks those previous decisions created. It is also a time of change and opportunity for this corporation as we focus on restoring the financial integrity of Manitoba Hydro while delivering on our core responsibilities of providing safe, reliable service to customers. I believe we are on the right path to ensure a solid future for Manitoba Hydro which is of benefit to all Manitobans.

H. Sanford Riley
Chair
Manitoba Hydro-Electric Board

Our service area in km^2

650 000

Total debt

$16.4 billion

Total assets

$22.3 billion

Number of electricity customers

573 438

Number of natural gas customers

279 268

Total electricity capability

5 679 megawatts

Number of communities with natural gas service

130

Kilometres of distribution lines

68 100

Kilometres of transmission lines

18 500

Kilometres of natural gas lines

10 180

Number of Indigenous employees

nearly 1 in 5

Total number of full-time employees

6 411

Corporate Profile

Manitoba Hydro is a provincial Crown Corporation and one of the largest integrated electricity and natural gas distribution utilities in Canada. We are a leader in providing renewable electricity and clean-burning natural gas. Our award-winning demand side management programs help Manitoba residents and businesses conserve energy and lower their energy costs.

We also trade electricity within three wholesale markets in the Midwestern United States and Canada. Nearly all of the electricity Manitoba Hydro produces each year is renewable hydro power generated using the province's abundant water resources. Our export of electricity helps to keep our domestic rates lower than they would otherwise be and displaces greenhouse emissions in markets where fossil fuels are used for electricity production

Mission

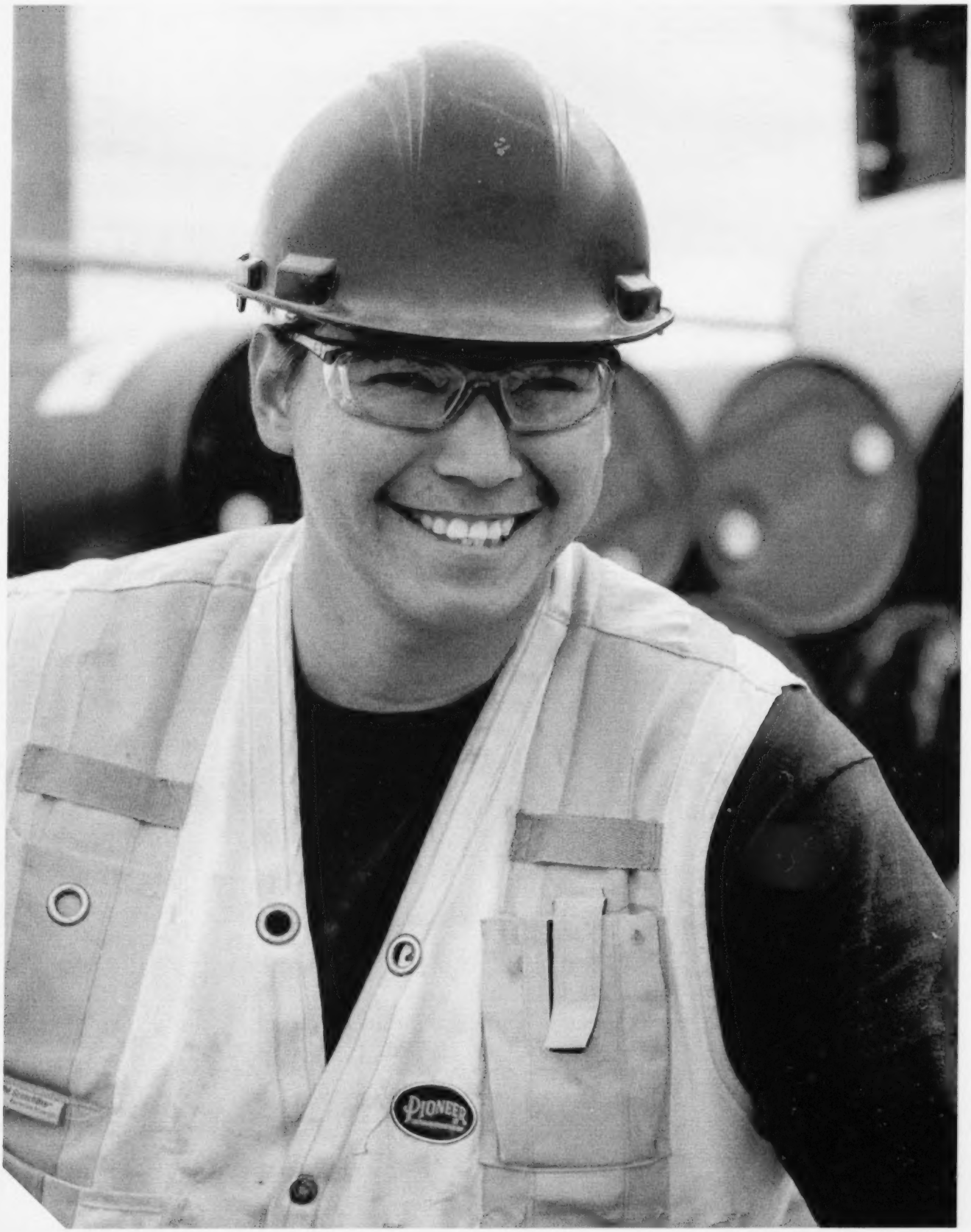
Create value for Manitobans by meeting our customers' expectations for the delivery of safe, reliable energy services at a fair price.

Strategic Priorities

- Restore financial sustainability
- Deliver an excellent customer experience
- Engage employees in our transformation
- Respect and support indigenous peoples in all aspects of our business

Foundational Principles

- Safety
- Respectful engagement with communities and stakeholders
- Environmental leadership
- Respect for each other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President & CEO's Letter to Customers

Building a strong energy future

Manitoba Hydro has seen some significant changes over the past year. A new board of directors was appointed in May 2016, and over the next three months they undertook a strategic review of Manitoba Hydro's financial and operating plans including a detailed review of the Bipole III Transmission and Keeyask Generating Station major capital projects. The board's review confirmed that, all factors considered, proceeding with both projects was the right decision for Manitoba Hydro and our customers despite anticipated cost escalations and schedule delays. This decision was not made lightly. In releasing the results of their review, the board expressed serious concerns with the equity position of the corporation as well as other changes in our business outlook; taken together these factors have created significant financial challenges and risk exposure for the corporation.

Our focus going forward must be on completing these major capital projects as quickly, efficiently and safely as possible.

Previous decisions by Manitoba Hydro to build Bipole III while simultaneously advancing the construction of Keeyask will double the corporation's debt in a relatively short time frame. In addition, persistent low prices in the short-term opportunity export market, primarily as a result of shale gas exploration and subsidies for development of wind and solar resources in the United States, combined with lower than forecasted electrical load growth here in Manitoba, are expected to reduce projected revenues by approximately $1.5 billion over the next decade. Adding to the financial implications of this shortfall is a nearly $3 billion projected increase in the capital costs for Keeyask and Bipole III.

The longer western route used for the Bipole III project also increased its cost, however, the project is now urgently required to address significant risks associated with increasing over-reliance on the existing Bipole I and Bipole II transmission links to our northern generation supply. Keeyask, which is being constructed in partnership with four First Nations - Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation

and Fox Lake Cree Nation - was recognized in the board review as too far advanced to cost effectively defer or cancel the project. In short, cancelling these two major projects would result in billions already invested with no functioning assets to show or available to meet future needs, and a continued reliance on a single transmission corridor for the bulk of our electricity supply. Our focus going forward must be on completing these major capital projects as quickly, efficiently and safely as possible.

To ensure Manitoba Hydro remains a strong, financially sustainable company with long-term capability to provide customers reliable, cost effective service, we are taking immediate actions to begin to restore Manitoba Hydro's financial health.

Keeyask and Bipole III are large, complex undertakings with multiple risks. Following the analysis completed as part of the board's review, and subsequent in-depth study by Manitoba Hydro, revised control budgets and schedules were established. Bipole III is now scheduled to be in-service in August 2018 at an estimated cost of $5 billion, while Keeyask is estimated to cost $8.7 billion with its first unit in service in 2021.

These projects are each among the largest currently under construction in North America and together represent a huge investment financed primarily by debt. As Manitoba Hydro takes on this level of debt, we must ensure there is sufficient cash flow to fund our operations and also to build a reasonable financial cushion of retained equity (through net income) to manage the inherent risks we face as a utility. While Manitoba Hydro's primarily hydroelectric energy supply is renewable with stable operating costs, it does bring with it unique risks including high capital costs, variable export market pricing, exposure to rising interest rates, and real impacts associated with droughts among other weather and system-related issues. Our current rate base isn't adequate to manage these risks into the future.

Manitoba Hydro recorded $71 million in net income for the past fiscal year which was an improvement from the prior year but represents only 35 per cent of the net income recorded 15 years ago when Manitoba Hydro was approximately half its current size. The reality, given the rates being charged to date, is we've already had to borrow several hundred million dollars to fund our core operations, and this is not sustainable over the longer term.

To ensure Manitoba Hydro remains a strong, financially sustainable company with long-term capability to provide customers with reliable, cost effective service, we are taking immediate actions to begin to restore Manitoba Hydro's financial health.

Much of the surplus power available during Keeyask's initial life is already sold to four utilities in Minnesota, Wisconsin and Saskatchewan through firm long-term contracts worth over $4.5 billion.

In May 2017 we submitted a General Rate Application to the Manitoba Public Utilities Board (PUB) which has authority to review and set electricity rates in Manitoba. Our plan includes annual increases to electricity rates in Manitoba of 7.9 per cent in each of the next five years followed by inflationary increases of two per cent annually thereafter. We anticipate the PUB will hold public hearings on the rate application in late 2017 or early 2018, and look forward to engaging in discussions with our customers and other stakeholders about the details of our long term financial plans as part of the rate review process.

We know Manitobans depend on us for their energy and we recognize we are proposing significant electricity rate increases over the next number of years. By increasing rates now we are seeking to protect both our customers and the company from the possibility of much higher rate increases in future if some of the risks that we are concerned about materialize. Our approach seeks to balance asking our customers to pay a higher, but still reasonable price for their energy while providing necessary revenues to ensure the long-term financial health of Manitoba Hydro. Manitoba rates will continue to be very competitive with other jurisdictions where utilities are facing their own challenges associated with aging infrastructure and the need to update and expand energy systems while they simultaneously transition to a lower carbon future.

Our plan also targets a significant decrease in our operating costs through a 15 per cent reduction in our workforce and finding further efficiency in our operations. The initial broad step in our workforce reduction plan included a Voluntary Departure Program offered to the majority of employees. The program will see over 800 employee departures between June 2017 and January 2018. Some additional staffing reductions are anticipated over the next two to three years as we complete Bipole III and undertake other new efficiency initiatives.

We are working to transform Manitoba Hydro into a leaner, more efficient and more customer-focused organization.

We are also working hard to sell any remaining surplus power which will provide additional revenues until our domestic load increases. We continue to explore further sales opportunities with both Canadian and American utilities who have growing requirements to source reliable and renewable energy. Much of the surplus power available during Keeyask's initial life is already sold to four utilities in Minnesota, Wisconsin and Saskatchewan through firm long-term contracts worth over $4.5 billion. The proposed Manitoba-Minnesota Transmission Project, reviewed this spring by the Clean Environment Commission, will provide the additional transmission capacity we need to deliver current and new sales to the United States and will significantly enhance the reliability of Manitoba's energy supply by doubling our ability to import electricity in times of drought or system emergency.

Additional sales are possible not only through arrangements with neighboring utilities but also through finding ways within our mandate, and to the benefit of Manitobans, to enable business development in the province. We were proud to work with Roquette Frères, a global producer of starch and plant-based specialty food ingredients, on an arrangement for energy services that supported their decision to expand into the North American market and locate their major pea-processing facility at the Poplar Bluff Industrial Park location near Portage la Prairie. This is but one example of our work with customers on a daily basis.

We are working to transform Manitoba Hydro into a leaner, more efficient and more customer-focused organization. To that end, reorganization of Manitoba Hydro's executive team and corporate structure was undertaken earlier this year to align the company with four strategic priorities vital to our success going forward – restoring financial sustainability, delivering an excellent customer experience, engaging employees in our transformation, and respecting and supporting Indigenous people in all aspects of our business. Along with our foundational principles of safety, environmental leadership and respectful engagement with communities and stakeholders, our strategic priorities are the cornerstones on which we will build a strong energy future for the province.

Manitoba Hydro continues to have strengths which we will build on. These include being in the enviable position of generating over 97 per cent of our electrical energy from renewable hydropower, operational and cost advantages gained from being a fully integrated gas and electrical utility, and our strong track record of providing safe, reliable energy services to customers.

Over the last year, working with our new board of directors, we have established a strong plan to move forward and have taken the initial steps required to create the positive changes needed to position us for success in the coming years. I am extremely positive about Manitoba Hydro's future and the ability of our organization to meet the challenges in front of us and adapt to the ever evolving energy sector.

I want to thank our employees for their hard work and dedication as well as their continued support as the company moves forward with our plan to become a stronger, more customer-focused organization delivering a strong energy future for all Manitobans

Kelvin Shepherd, P.Eng
President and Chief Executive Officer
Manitoba Hydro

Report on Performance — 2016-17 Highlights

- Received a Safety Award for Excellence (SAFE) Certificate of Recognition from the Canadian Gas Association for our seven-point safety enhancement strategy. The SAFE program recognizes individuals or groups that have made outstanding contributions to worker safety and health.
- Increased underground natural gas and electrical line locates by 12 per cent compared to the previous year by introducing *ClickBeforeYouDig.ca*, a convenient, online way for customers to request the service.
- Received an Environment Act Licence for the St. Vital Transmission Complex – two new transmission lines needed to strengthen the reliability of southern Manitoba's electricity supply and support the expanding population in Morden, Winker, Steinbach and the surrounding areas.
- Completed the new Adelaide Station improving the reliability of the electrical supply in downtown Winnipeg and replacing the century-old King Street Station.
- Transferred distribution load from the overloaded St. James Station in Winnipeg to the new Madison Station as part of an ongoing effort to renew Manitoba's electrical infrastructure and serve growing demand in the province.
- Began construction of the Manigotagan Corner Station and transmission line on the southeast side of Lake Winnipeg to support continued growth in the region.
- Opened new Customer Service Centres in Ashern and Neepawa. Built to Power Smart* standards that surpass the Manitoba Energy Code for Buildings, they will save more than $35,000 in energy costs on an annual basis.
- Launched the Power Smart Solar Energy Program encouraging customers to adopt solar power and received over 200 applications with the initial 37 participants saving over 400,000 kilowatt-hours.
- Received prestigious Energy Star Utility of the Year award from Natural Resources Canada for our promotion of energy efficiency to customers.
- Named as one of our country's top employers for seventh year running by Canada's Top 100 Employers Project.
- Joined the Southwest Power Pool (SPP) market providing new opportunities to export our surplus electricity. Similar to the MISO market, the SPP market oversees the bulk electric grid and wholesale power market in 14 states in the central U.S.
- Advocated to prevent an $11 million annual transportation cost increase for natural gas ratepayers which would have resulted from TransCanada Pipelines Limited being allowed to amend its Storage Transportation Service on the Canadian Mainline.

*Manitoba Hydro is a licensee of the Trademark and Official Mark.

Looking up at the Keeyask Project spillway piers.

Major projects update

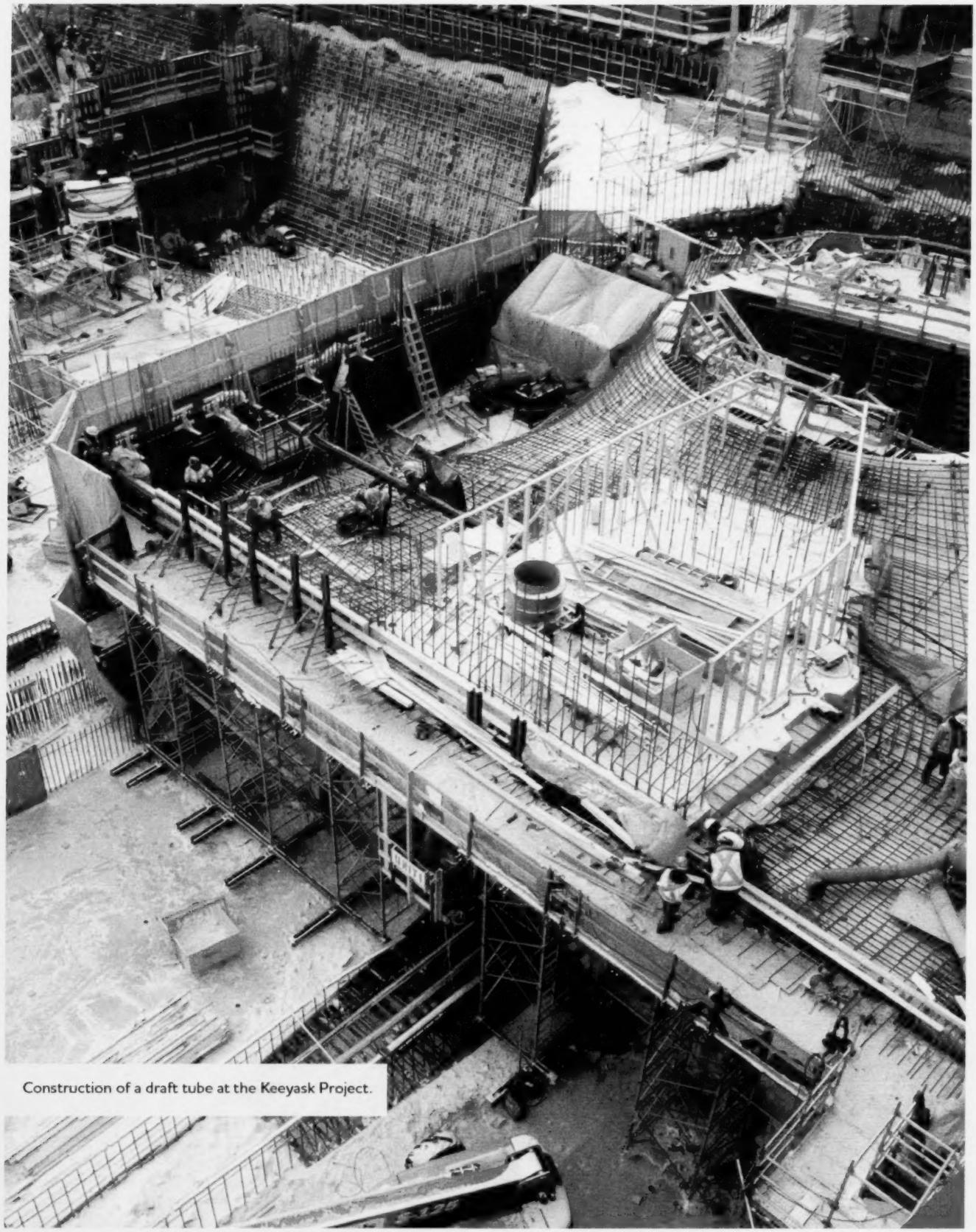
Keeyask

The Keeyask Project will produce additional renewable electricity needed to maintain a reliable supply for Manitoba. It is a collaborative undertaking between Manitoba Hydro and four Manitoba First Nations – Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation and Fox Lake Cree Nation. Although progress was slower than planned due to higher projected construction costs and geotechnical challenges, achievements during the past fiscal year included completion of both the earthworks excavation and the south access road. The project also generated employment opportunities for members of partner communities with over 450 individuals from the Keeyask Cree Nations working at site during peak construction.

The safety record at Keeyask and quality of the final work is another significant achievement. There were more than five million person hours worked at the project site during the fiscal year; a 70 per cent increase over the previous year. Despite the substantial increase of hours worked, there were only seven lost time injuries; the same as the previous year. Safety is a top priority and initiatives are continuously refined to improve performance at site.

August 2021 – projected in-service date
$8.7 billion – total estimated cost
$3.3 billion – total spent to March 31, 2017
$515 million – total contracts awarded to Indigenous contractors/joint ventures
10 618 – total hires to the project

- **77 per cent** – Manitoba residents
- **50 per cent** – Indigenous persons



Construction of a draft tube at the Keeyask Project.

Bipole III

Being built to strengthen the reliability and security of our province's energy supply, Bipole III will deliver the renewable electricity generated in northern Manitoba to customers in the south. It is one of the largest projects under construction in North America, and employment for the project hit its peak this past fiscal year. Milestones achieved included the enclosure of the Riel and Keewatinohk high voltage direct current (HVDC) converter station buildings and completion of the ground electrodes for both sites.

Approximately 90 per cent of all foundations were installed for the 1 384 kilometre HVDC transmission line by March 31 with approximately 53 per cent, or 1 620, of the towers erected.

The Bipole III Project's safety record is a significant achievement. There were just under three million person hours worked at project sites, an increase of almost 50 per cent compared to the previous year. Despite the substantial increase in hours, there were only two lost time injuries and an appreciable reduction in the frequency and severity of injuries. As the project approaches completion, safety remains a top priority.

July 2018 – projected in-service date

$5.04 billion – total estimated cost

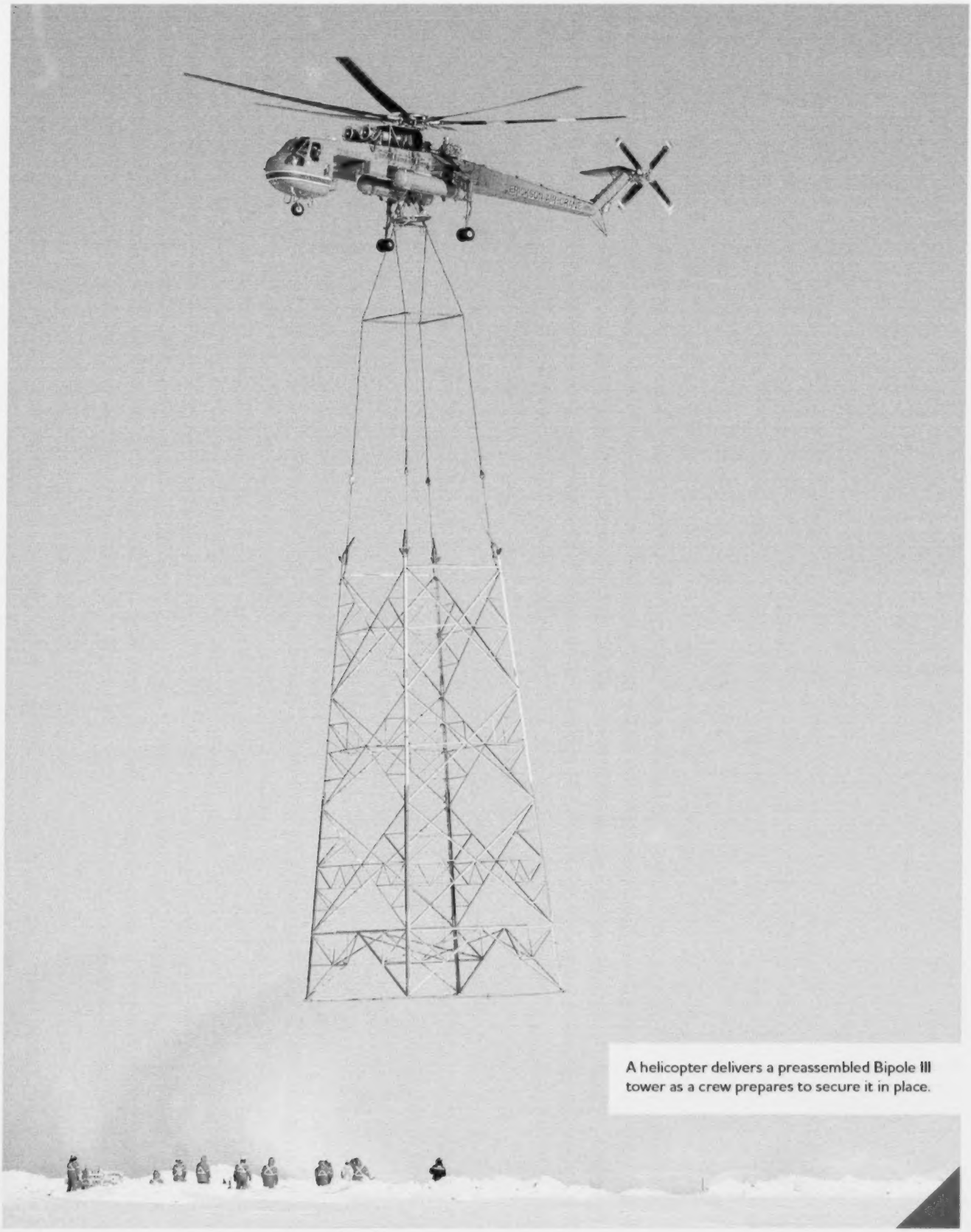
$3.2 billion – total spent to March 31, 2017

$305 million – total contracts awarded to Indigenous contractors/joint ventures

10 176 – total hires to the project,

4 179 – active hires as of March 31, 2017

- **81 per cent** – Manitoba residents
- **39 per cent** – Indigenous persons



A helicopter delivers a preassembled Bipole III tower as a crew prepares to secure it in place.

SAFETY

Promoting safety is one of Manitoba Hydro's foundational principles. We are committed to continuously improving safety performance and focusing on strategies to instill a safety and health culture in all corporate activities.

MEASURE	TARGET	PERFORMANCE
Accident severity rate (days per 200 000 hrs worked)	<12	10.06
Accident frequency rate (accidents per 200 000 hrs worked)	<0.60	0.82
Serious incidents	0	6

DELIVER AN EXCELLENT CUSTOMER EXPERIENCE

While continuing to deliver safe, reliable energy at a fair price, we will be working to enhance our customer experience.

MEASURE	TARGET	PERFORMANCE
System average interruption duration (minutes per year)	<116	157
System average interruption frequency (outages per year)	<1.4	1.69
Customer satisfaction	>8.2/10	8.08

RESTORE FINANCIAL SUSTAINABILITY

In order for us to maintain and grow our business as well as manage our operating risks, a strong financial position is a necessity. We are committed to carefully managing costs and utilizing resources efficiently and effectively to fulfill our mandate and provide maximum value to our stakeholders and customers.

MEASURE	TARGET	PERFORMANCE
Debt:equity ratio	75:25	84:16
Interest coverage	1.80	1.54
Capital coverage	1.20	1.48

WORKFORCE MANAGEMENT & INDIGENOUS RELATIONS

A highly skilled and motivated workforce that reflects the demographics of Manitoba is critical to our success. Engaging impacted Indigenous communities in a positive way is vital to enhancing working relationships. We continue to place emphasis on addressing the adverse effects of our operations and fostering respect and support of Indigenous peoples in all aspects of our business.

MEASURE	TARGET	PERFORMANCE
Indigenous – province-wide workforce	18%	18.3%
Indigenous – northern workforce	47%	47.9%
Persons with disabilities	6%	8.9%
Visible minorities	9%	8.8%

ENVIRONMENTAL LEADERSHIP

Protecting the environment is an integral part of everything we do. Manitoba Hydro integrates environmentally responsible practices into all aspects of our business. Environmental protection is carried out with dedication to monitoring programs, climate change initiatives, and environmental research and development.

MEASURE	TARGET	PERFORMANCE
Renewable electricity generated in Manitoba	≥99%	99.73%
Total annual GHG emissions	≤520 kt	104 kt
Repeat environmental audit findings	0 repeat findings	0

DEMAND SIDE MANAGEMENT

Demand side management plays a key role in meeting Manitoba's future energy needs in a sustainable manner as the province's population and economy continues to grow. Our efforts assist customers in using energy more efficiently and result in overall lower energy bills.

MEASURE	TARGET	PERFORMANCE
Annual incremental electric energy saved	359 GWh	370 GWh
Electric capacity saved annually	240 MW	247 MW
Natural gas energy saved annually	8.8 million cubic metres	10.4 million cubic metres

Corporate Integrity Program

Manitoba Hydro encourages employees and others to speak up on matters of concern without fear of reprisal, through its Integrity Program. All disclosures under the Integrity Program are protected by strict rules of confidentiality.

Below is a summary of all disclosures received during 2016-17 which allege wrongdoing as defined in The Public Interest Disclosure (Whistleblower Protection) Act:

Total number of disclosures received:	2
Number of disclosures ongoing from 2015-16:	0
Number of disclosures acted upon:	2
Number of disclosures not acted upon:	0
Number of investigations commenced/continued:	2
Number of disclosures that were verified:	0
Number of disclosures that were not verified:	0
Number of disclosures carried forward to 2017-18:	2

Manitoba Hydro-Electric Board

Appearing from left to right: David Brown, Michael Pyle, Cliff Graydon, Jennefer Nepinak, H. Sanford Riley (Chair), Steve Kroft, Dayna Spiring, Earl Edmondson, and Dr. Annette Trimbee
Missing from photo: Allen Snyder

Manitoba Hydro Senior Officers

Appearing from left to right:

Shane Mailey, P. Eng
Vice-President,
Transmission

Jamie McCallum
Chief Finance & Strategy Officer

Ruth Kristjanson, BA (Hons), MA
Vice-President,
Indigenous Relations

Kelvin Shepherd, P. Eng
President and Chief Executive Officer

Bryan Luce
Vice-President,
Human Resources
& Corporate Services

Lorne Midford, P. Eng
Vice-President,
Generation & Wholesale

Siobhan Vinish
Vice-President,
Marketing & Customer Service

Ken Tennenhouse, LL. B
General Counsel &
Corporate Secretary

Financial Review

Management's Discussion and Analysis

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The following Management's Discussion and Analysis (MD&A) provides comments on the financial results of Manitoba Hydro (the corporation) for the year ended March 31, 2017 with comparative information where applicable. The MD&A also provides an assessment of corporate risks and contains forward-looking statements regarding conditions and events which may affect financial performance in the future. Such forward-looking statements are subject to a number of uncertainties which are likely to cause actual results to differ from those anticipated. For context, the MD&A should be read in conjunction with the consolidated financial statements and notes. The fiscal 2017 financial information discussed below has been prepared in accordance with International Financial Reporting Standards (IFRS).

Summary of Consolidated Results

Consolidated Statement of Income

Manitoba Hydro's consolidated net income from electricity and natural gas operations for the fiscal year ended March 31, 2017 was $71 million compared to $49 million in the previous fiscal year. Net income increased by $22 million primarily as a result of a $20 million gain on the fair market value sale of property acquired over 75 years ago. On the operating side, revenue grew due to higher dependable export sales volumes as well as higher domestic electricity revenue resulting from customer growth and rate increase impacts. These increases in revenue were mainly offset by higher finance expense, fuel and power purchased and capital taxes.

The following table provides results on the two primary operating segments of Manitoba Hydro as well as the consolidated results.

	Electric		Natural Gas		Consolidated*		
	2017	2016	2017	2016	2017	2016	Change
	millions of dollars						
Revenues							
Manitoba	1 467	1 430	345	356	1 867	1 843	24
Extraprovincial	460	415	-	-	460	415	45
	1 927	1 845	345	356	2 327	2 258	69
Expenses	1 952	1 893	330	329	2 323	2 266	57
Net income (loss) before net movement in regulatory balances	(25)	(48)	15	27	4	(8)	12
Net movement in regulatory balances	66	75	(11)	(28)	55	47	8
Net income (loss)	41	27	4	(1)	59	39	20
Net income (loss) attributable to:							
Manitoba Hydro	53	37	4	(1)	71	49	22
Non-controlling interests	(12)	(10)	-	-	(12)	(10)	(2)
	41	27	4	(1)	59	39	20
Total assets and regulatory debits	21 733	19 229	721	677	22 338	19 779	2 559
Retained earnings	2 749	2 696	69	65	2 899	2 828	71
Financial Ratios							
Debt:equity					84:16	83:17	
Interest coverage					1.54	1.57	
Capital coverage					1.48	1.37	

*includes other segments and eliminations

Consolidated net income attributable to Manitoba Hydro of $71 million for the 2017 fiscal year was comprised of net income of $53 million in the electric segment ($33 million net of gain on sale of property), net income of $4 million in the natural gas segment, net income of $11 million from subsidiaries and a $3 million net income related to adjustments required on consolidation to harmonize accounting policies between electric and natural gas operations related to the gas meter exchange program.

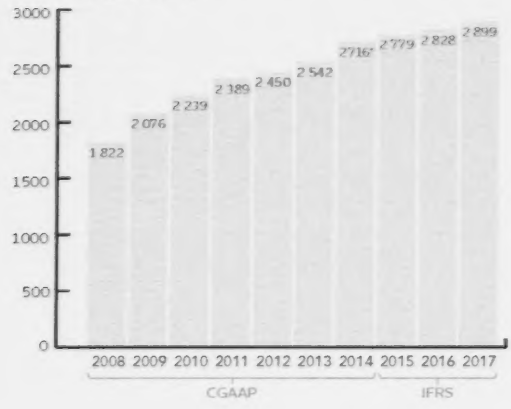
Consolidated net income for 2016-17 was $37 million higher than the forecasted net income of $34 million which was primarily the result of higher extraprovincial revenues driven by the 13th consecutive year of higher than average water conditions, higher other revenue due to a gain on the sale of property and ongoing cost containment measures. This was partially offset by lower domestic energy load compared to forecast as a result of warmer weather and customer usage as well as higher water rentals and assessments due to higher generation.

Financial Targets

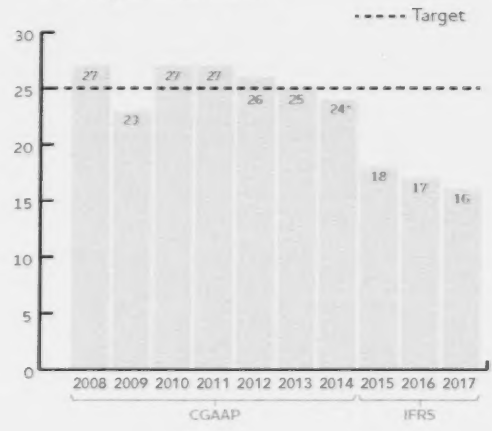
Manitoba Hydro has three primary financial targets which are used to assess the financial strength of the corporation. The first is to maintain a minimum equity ratio of 25%, a measure of the portion of assets that are financed by internally generated funds rather than debt. The second is an earnings before interest, taxes, depreciation and amortization (EBITDA) interest coverage ratio with a minimum target of greater than 1.80 which measures the ability to meet interest payment obligations with cash flow. The third is to maintain a capital coverage ratio of greater than 1.20, which is a measure of the ability of cash flow from operations to fund sustaining capital expenditures.

Consolidated net income of $71 million contributed to the corporation's retained earnings of $2 899 million at March 31, 2017. The equity ratio of 16% is lower than the 25% target. The decline in the equity ratio since 2011 is primarily due to higher debt levels to fund significant investment in major new generation and transmission facilities, transitional adjustments upon adoption of IFRS and relatively lower levels of net income as compared to earlier years. The interest coverage ratio of 1.54 was below the target level of 1.80. The capital coverage ratio of 1.48 exceeded the target level of 1.20 however it was helped by a significant improvement to cash flow from increased payable balances.

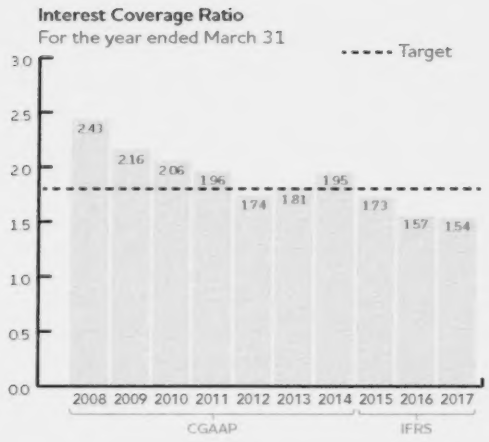
Retained Earnings
For the year ended March 31
millions of dollars

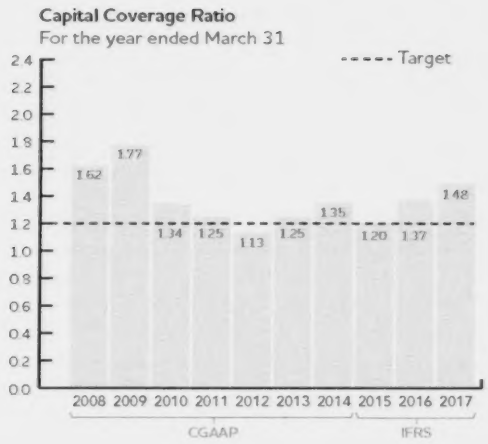


Equity Ratio
For the year ended March 31



*On transition to IFRS on April 1, 2014, retained earnings was adjusted to $2 643 which reduced the equity ratio to 21%.





Consolidated Statement of Financial Position

The following table provides a summary of Manitoba Hydro's consolidated statement of financial position.

	2017	2016	increase/ (decrease)
	millions of dollars		
Current assets	1 262	1 484	(222)
Property, plant and equipment	19 757	17 208	2 549
Non-current assets	753	601	152
Total assets	21 772	19 293	2 479
Regulatory deferral balances	566	486	80
Total assets and regulatory deferral balances	22 338	19 779	2 559
Current liabilities	1 620	1 232	388
Long-term debt	16 102	14 201	1 901
Non-current liabilities	2 179	2 102	77
Total liabilities	19 901	17 535	2 366
Equity	2 360	2 192	168
Total liabilities and equity	22 261	19 727	2 534
Regulatory deferral balances	77	52	25
Total liabilities, equity and regulatory deferral balances	22 338	19 779	2 559

Significant changes are explained below:

Current assets decreased $222 million primarily as a result of lower levels of cash on hand due to the corporation's decision to enhance pre-funding in the prior year in anticipation of borrowing restrictions during the election cycle.

Property, plant and equipment increased by $2 549 million for capital expenditures required to enhance reliability, and to address new and increasing load requirements as well as infrastructure renewal.

Non-current assets increased by $152 million primarily due to the investment in the Great Northern Transmission Line (GNTL), advances made to Keeyask partners and easements associated with the Bipole III Reliability Project.

Current liabilities increased by $388 million due to an increase in payables related to major capital projects while long-term debt increased by $1 901 million to fund the investment in these projects. Non-current liabilities increased by $77 million due to an increase in revenue set aside in the Bipole III deferral account.

Regulatory deferral balances increased due to annual investment in demand side management (DSM) programs including the DSM deferral which captures the difference between actual and planned spending on DSM programs. There were additional regulatory deferrals related to depreciation and overhead costs which were partially offset by the reduction of the purchased gas variance account (PGVA) associated with the collection of prior period gas commodity costs from customers.

Consolidated Statement of Cash Flow

Manitoba Hydro's primary sources of liquidity and capital are funds generated from operations and debt financing through the Province of Manitoba. These sources are used for multiple purposes including investment in generation, transmission and distribution facilities, to fund operating and maintenance activities and to service long-term debt.

The following table provides a summary of Manitoba Hydro's consolidated statement of cash flows.

	2017	2016	change
	millions of dollars		
Cash and cash equivalents, beginning of year	**955**	494	461
Cash provided by operating activities	**872**	784	88
Cash used for investing activities	**(3 036)**	(2 434)	(602)
Cash provided by financing activities	**1 855**	2 111	(256)
Cash and cash equivalents, end of year	**646**	955	(309)

Cash from operating activities includes cash receipts from customers, cash paid to suppliers and employees as well as interest payments.

Cash provided from operations in 2016-17 was $872 million, an increase of $88 million from the previous year. The change reflects significantly higher payable balances primarily related to the construction of the Keeyask generation and transmission facilities and the Bipole III Reliability Project.

The corporation's electric and natural gas segments are capital intensive in nature and require continued investment in infrastructure to construct new generation, transmission and distribution facilities, increase capacity of existing facilities and maintain and improve service, reliability, safety and environmental performance.

Cash flow used in investing activities in 2016-17 was $3 036 million, compared to $2 434 million in 2015-16. The increase was primarily due to higher expenditures for the Bipole III Reliability Project and Keeyask Generating Station.

Manitoba Hydro's authority to issue debt is provided through *The Loan Act*, which is approved each year and grants borrowing authority to meet the corporation's new debt financing requirements. *The Manitoba Hydro Act* grants the corporation the power to issue short-term promissory notes in the name of the Manitoba Hydro-Electric Board (MHEB) up to an aggregate sum of $500 million of principal outstanding at any one time. As at March 31, 2017 the corporation had $nil outstanding on its short-term programs. Authority to refinance any maturing long-term debt is provided through *The Financial Administration Act*. The majority of Manitoba Hydro's long-term debt is obtained through advances from the Province of Manitoba.

The primary use of the long-term borrowing program is to provide debt financing for investment in new generation and transmission and, if needed, to fund continuing operations. The primary use of the short-term borrowing program is to safeguard the corporation from liquidity risk by providing a credit facility to support the corporation's temporary cash requirements. Both long and short-term borrowings are unconditionally guaranteed as to principal and interest by the Province of Manitoba (except for mitigation bonds issued by the MHEB).

Cash provided by financing activities in 2016-17 was $1 855 million, compared to $2 111 million in 2015-16 and is comprised primarily of proceeds from long-term debt through advances from the Province. Proceeds from financing arranged by the corporation amount to $2 186 million compared to $2 165 million in the previous year. Current year proceeds were used to fund new capital requirements and to refinance long-term debt maturing during the year. As a result of the low financing rates during 2016-17, the corporation was able to issue debt at a weighted average rate of 2.48%.

Electric Segment

The electric segment is responsible for the generation, transmission and distribution of electrical energy adequate for the needs of the Province of Manitoba and engages in wholesale power related transactions in order to assist in providing a reliable and dependable supply of power to Manitoba and to minimize the net costs to Manitoba customers. The electric segment includes Manitoba Hydro's ownership interests in the Wuskwatim Power Limited Partnership (WPLP), the Keeyask Hydropower Limited Partnership (KHLP) and a subsidiary formed to participate in the development of a new transmission line to the U.S. Manitoba Hydro provides electric service to 503 167 residential and 70 271 commercial and industrial customers in Manitoba.

Net income attributable to Manitoba Hydro in the electric segment was $53 million in 2016-17 compared to a net income of $37 million in the previous fiscal year. Without the gain from a property sale, net income in the electric segment would have been $33 million. The change in net income is a result of higher extraprovincial revenues from higher dependable export sales volumes, higher domestic revenues due to growth in the number of customers and other revenues, offset by increases in net finance expense due to the weakening Canadian dollar resulting in realized foreign exchange losses on U.S. debt, higher fuel and power purchased due to higher wind generation purchases, higher water rentals due to increased generation and higher capital taxes from increased debt borrowings required for major capital development.

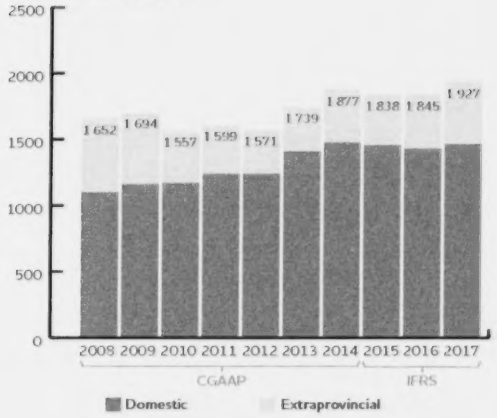
Electric Revenues

Domestic revenue includes the sale of electricity to residential, commercial and industrial customers in Manitoba and other miscellaneous revenues. Residential customers are comprised of all housing types including apartment blocks, seasonal cottages and farm houses. Commercial customers are comprised of small and medium establishments including retail outlets, schools, universities and hospitals. Industrial customers are comprised of large establishments who own their own transformation and are primarily engaged in mining and/or manufacturing activities. Revenues are impacted by weather, electricity rates, customer growth and energy usage. Other revenue in the electric segment includes amortization of customer contributions, provision of services on customer owned plant, gains on the sale of property and net rental revenue between Manitoba Hydro and other telecom and cable providers.

Extraprovincial revenue includes revenues from Canadian and U.S. export sales as well as revenues from other related export market activities such as arbitrage opportunities between wholesale energy markets, transmission credits and the sale of renewable energy certificates. Canadian and U.S. sales include both dependable and opportunity sales. Dependable sales are export contracts sourced from Manitoba Hydro's hydraulic energy available during lowest water conditions and are typically negotiated at least one year in advance and have a duration of greater than six months. Opportunity sales are based on excess energy, are generally over shorter periods and are transacted primarily in markets operated by an independent system operator such as the Midcontinent Independent System Operator (MISO). Opportunity sales are also negotiated directly with a purchasing party. Extraprovincial sales are impacted by changes in water flow conditions, export prices, foreign exchange rates and domestic usage. Extraprovincial sales volumes are dependent on the availability of surplus generation that requires favorable water flow conditions and the availability of transmission to export markets.

Total electric revenues were $1 927 million, an increase of $82 million or 4.4% from the previous year. This was the result of an increase of $45 million in extraprovincial revenues and a $37 million increase in domestic revenues. Higher extraprovincial revenues were primarily due to higher dependable sales volumes from new long term contracts as well as higher diversity sales resulting from increased generation attributable to favourable water conditions. Increases in domestic revenues are a result of the gain on sale of property, growth in the number of customers, a slightly colder winter and the full year impact of the August 1, 2015 rate increase.

Electric Revenues
For the year ended March 31
millions of dollars



The breakdown of electric revenues is as follows:

Electric Revenues and kWh Sales
For the year ended March 31

	2017	2016	% change	2017	2016	% change
	millions of dollars			*millions of kWh*		
Domestic						
Electricity sales						
Residential	**582**	575	1.2	**7 250**	7 181	1.0
Commercial	**496**	495	0.2	**6 876**	6 876	-
Industrial	**341**	329	3.6	**7 834**	7 597	3.1
	1 419	1 399	1.4	**21 960**	21 654	1.4
Other revenue	**48**	31	54.8			
Domestic revenue	**1 467**	1 430	2.6	**21 960**	21 654	1.4
Extraprovincial						
Dependable	**248**	206	20.4	**3 310**	2 701	22.5
Opportunity	**202**	197	2.5	**7 962**	7 580	5.0
Other	**10**	12	(16.7)			
Extraprovincial revenue	**460**	415	10.8	**11 272**	10 281	9.6
	1 927	1 845	4.4	**33 232**	31 935	4.1

Revenues from electricity sales in Manitoba totaled $1 419 million in 2016-17, an increase of $20 million from the previous year. Electricity consumption in Manitoba was 21 960 million kilowatt-hours, 306 million kilowatt-hours higher than the previous year. The increase in consumption was mainly due to increased customer growth and higher customer usage.

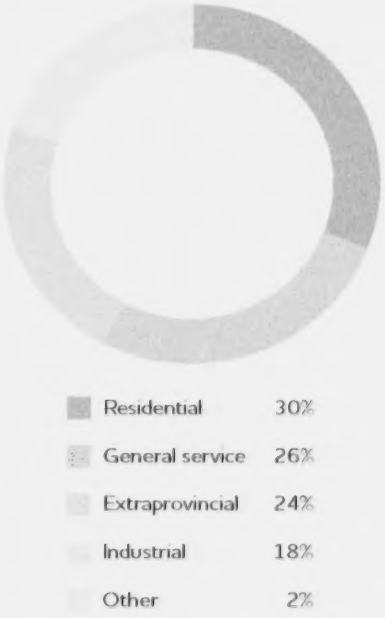
Revenues from sales to residential customers for 2016-17 amounted to $582 million, an increase of $7 million or 1.2% from the previous year. The increase was primarily a result of customer growth of 5 468 to 503 167 or 1.1% as well as full year impact of the August 1, 2015 rate increase.

Revenues from commercial customers amounted to $496 million in 2016-17, an increase of $1 million or 0.2% from the previous year. The increase was mainly attributable to customer growth of 328 to 69 894 and the full year impact of approved electricity rate increases.

Revenues from industrial customers amounted to $341 million, an increase of $12 million or 3.6% from the previous year. The increase was mainly the result of customer growth of 8 customers to 377, an increase in customer usage and the full year impact of approved electricity rate increases.

Other revenues amounted to $48 million, an increase of $17 million or 54.8% from the previous year. The increase was mainly the result of gains on the sale of property.

Electric Revenues
For the year ended March 31, 2017



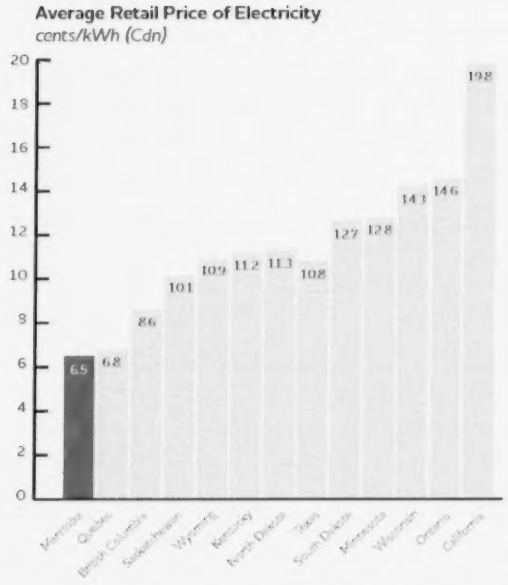
Extraprovincial revenues totaled $460 million in 2016-17, an increase of $45 million from the previous year. The increase reflects an increased dependable fixed and market based volumes as a result of new long-term contracts and higher generation. There is also a slight increase in opportunity sales resulting from increased volumes due to higher generation. Short term export prices have remained relatively unchanged and at levels significantly below those realized prior to 2009. Of the total extraprovincial revenues, $423 million or 92% was derived from the U.S. market, $34 million or 7% was from sales to Canadian markets and $3 million or 1% was related to arbitrage opportunities between wholesale energy markets.

Electric Rates

The Public Utilities Board (PUB) approved a 3.36% interim electricity rate increase for all customer classes effective August 1, 2016 and directed that the entire increase be added to the previously established deferred revenue account to mitigate rate increases when the Bipole III Reliability Project comes into service. During the 2016-17 fiscal year $96 million was set aside for this purpose, which reflects the total of the set aside increases of 1.5% approved by the PUB effective May 1, 2013, 0.75% effective May 1, 2014, 2.15% effective August 1, 2015 and the above noted 3.36% effective August 1, 2016. At the end of fiscal 2017, the balance in this deferral account totalled $196 million.

On May 5, 2017 Manitoba Hydro applied to the PUB requesting confirmation of the 2016 rate increase along with an interim rate increase of 7.9% effective August 1, 2017 and a further 7.9% increase April 1, 2018. Manitoba Hydro believes these rate increases are required to address a continued deterioration in the corporation's financial outlook including the significant increase in operating and financing costs as major new assets are placed in-service. Full details of the corporation's Application can be found on either Manitoba Hydro's or the PUB's website.

Manitoba Hydro's domestic electricity rates continue to be among the lowest overall in North America. This is illustrated in the accompanying chart which was excerpted from utilities' annual reports and United States Department of Energy and Edison Electric Institute publications.



Electric Expenses

Electric expenses totaled $1 952 million for 2016-17, an increase of $59 million or 3.1% over the previous year. The increase in expenses was mainly the result of a $31 million increase in net finance expense, a $15 million increase in fuel and power purchased, a $12 million increase in capital and other taxes and an $8 million increase in depreciation and amortization, partially offset by a $7 million decrease in operating and administrative expenses and a $5 million decrease in other expenses.

The breakdown of electric expenses is as follows:

Electric Expenses
For the year ended March 31

	2017	2016	% change
	millions of dollars		
Operating and administrative	536	543	(1.3)
Finance expense	608	582	4.5
Depreciation and amortization	375	367	2.2
Water rentals and assessments	131	126	4.0
Fuel and power purchased	132	117	12.8
Capital and other taxes	119	107	11.2
Other expenses	60	65	(7.7)
Corporate allocation	8	8	-
Finance income	(17)	(22)	(22.7)
	1 952	1 893	3.1

Operating and administrative expenses are comprised primarily of labour and benefits, materials, contracted services and overhead costs associated with operating, maintaining and administering the facilities and programs of the corporation and providing services to customers.

In 2016-17, operating and administrative expenses for electric operations amounted to $536 million, a decrease of $7 million, or 1.3% compared to 2015-16 which is below the Manitoba Consumer Price Index which increased 1.6%.

The decrease in operating and administrative expenses is attributable to a greater focus of resources on capital construction as well as the impacts of ongoing cost saving measures throughout the corporation.

Finance expense includes interest on short and long-term borrowings and the provincial debt guarantee fee paid to the Province of Manitoba, foreign exchange gains and losses, accretion expense on provisions and other long-term liabilities, partially offset by interest capitalized for those qualifying assets under construction. Finance expense is impacted by borrowing requirements for capital investment, interest rates on borrowings and the capitalization of interest.

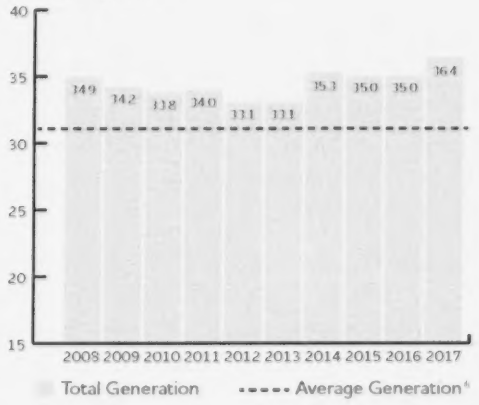
Finance expense totaled $608 million in 2016-17, an increase of $26 million or 4.5% from the previous year. The impact from the weakening Canadian dollar resulted in realized foreign exchange losses on U.S. long-term debt. These increases to finance expense were partially offset by lower interest rates on new long-term debt issues.

Depreciation and amortization includes depreciation of property, plant and equipment and amortization of intangible assets as well as any gains or losses on disposal of assets.

Depreciation and amortization expense amounted to $375 million in 2016-17, an increase of $8 million or 2.2% from the previous year. The increase was mainly attributable to new additions to plant and equipment coming into service.

Water rentals and assessments includes water rentals paid to the Province of Manitoba for the use of water resources in the operation of the corporation's hydraulic generating stations and assessments paid to various regulatory and market organizations. Water rentals and assessments amounted to $131 million in 2016-17 as compared to $126 million in the prior year. The increase is due to higher generation as a result of favourable water conditions. Hydraulic generation amounted to 36.4 billion kilowatt-hours in 2016-17 compared to 35.0 billion kilowatt-hours in the previous year which is an increase of 4%.

Hydraulic Generation
For the year ended March 31
billions of kWh



*Average hydraulic generation is based on the historic river flows since 1912 and the current hydroelectric generation fleet

Fuel and power purchased includes fuel for the thermal generating stations and remote diesel sites, purchased electrical energy from external Canadian and U.S. suppliers, wind power purchased from the independently-owned St. Leon and St. Joseph wind farms and transmission charges. Fuel and power purchases are impacted by weather, market prices for electricity and water flow conditions. If water conditions are low, electricity purchases are necessary to meet the energy requirements of Manitobans. Manitoba Hydro has experienced higher than average hydraulic generation over the past several years largely as a result of favorable water supply conditions reducing the requirement to purchase power.

Fuel and power purchased was $132 million in 2016-17, an increase of $15 million or 13% from 2015-16. The increase was primarily due to higher contractual wind purchase obligations as a result of higher wind generation as well as an increase in the U.S. transmission rates charged to the corporation for the export/import of electricity.

Capital and other taxes includes payments to the Province of Manitoba for capital and payroll tax and to municipalities within the Province of Manitoba for property taxes.

Capital and other taxes amounted to $119 million in 2016-17, an increase of $12 million or 11% compared to the previous year. The change was primarily due to increased capital taxes as a result of higher debt levels related to additional capital investment in projects such as Keeyask and Bipole III.

Other expenses include expenditures associated with DSM programs designed to reduce overall energy consumption and assist customers in managing their energy costs as well as other miscellaneous expenditures. The majority of other expenses are removed from the statement of income, deferred and subsequently amortized through net movement in regulatory balances.

Other expenses amounted to $60 million in 2016-17, a decrease of $5 million or 8% compared to the previous year. The decrease was primarily due to lower spending on DSM programs related to the delayed implementation of the LED Roadway Lighting Conversion program, lower site remediation costs and a greater number of large business initiative projects completed in the prior year. Electric DSM expenditures for the year totaled $50 million, a decrease of $4 million over 2015-16.

Electric Expenses
For the year ended March 31, 2017

Finance expense (net)	30%
Operating and administrative	28%
Depreciation and amortization	19%
Water rentals and assessments	7%
Fuel and power purchased	7%
Capital and other taxes	6%
Other expenses	3%

Electric Net Movement in Regulatory Balances

The corporation's financial results were prepared using the interim standard IFRS 14 *Regulatory Deferral Accounts* which allows Manitoba Hydro to continue to recognize regulated balances for financial reporting purposes. This results in the deferral of costs and recoveries that under IFRS would otherwise be recorded as expenses or income in the current accounting period. The deferred amounts are either recovered or refunded through future rate adjustments.

The net movement in regulatory balances captures the timing differences between financial reporting under IFRS and those amounts approved by the PUB for rate-setting purposes. The change in the net movement in regulatory balances of $9 million was primarily due to lower DSM expenditures, site remediation costs and fewer losses on disposal of property, plant and equipment.

Electric Capital Expenditures

The electric capital expenditure program relates to investments in major new generation and transmission facilities, as well as additions, improvements and replacement of existing infrastructure.

Expenditures for capital construction totaled $2 892 million in 2016-17 compared to $2 255 million during the previous fiscal year. This includes $2 362 million for the development of new major generation and transmission facilities, an increase of $640 million when compared to 2015-16. Current year expenditures include $1 373 million (2016 - $872 million) for the Bipole III Reliability Project and $904 million (2016 - $742 million) for the Keeyask Generating Station.

The Bipole III Reliability Project will strengthen reliability of Manitoba Hydro's electricity supply by reducing dependency on existing high voltage direct current transmission lines and the Dorsey Converter Station which are relied upon to deliver over 70 per cent of the electricity produced in Manitoba. The Bipole III Reliability Project includes a 1 384 kilometre, 500 kilovolt (kV) transmission line with two converter stations. The two new converter stations, the Keewatinohk Converter Station and the Riel Converter Station, will provide additional capacity to existing Bipole I and II HVDC transmission systems. The project also provides additional capacity for delivery of existing and proposed hydroelectric generation to southern Manitoba. A new control budget of $5.0 billion for the project was approved by the MHEB in early 2017 with in-service scheduled for July 2018.

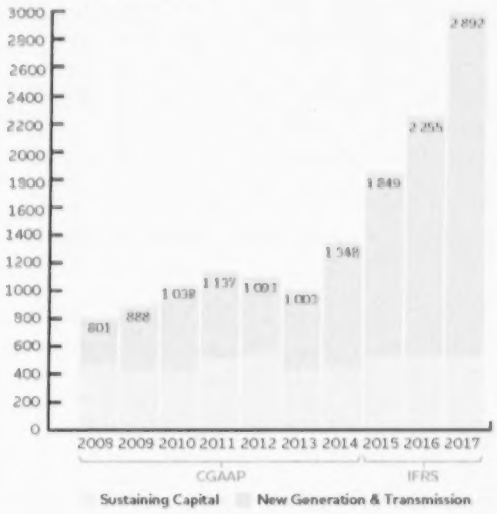
During the 2017 fiscal year, both the Riel and Keewatinohk HVDC converter station buildings that are part of the Bipole III Reliability Project were enclosed in September of 2016, a major milestone. The required ground electrodes for both sites were constructed during the year. Two of four shipments of converter transformers arrived at site and work began on their installation. Approximately 90% of all foundations have been installed for the 500 kV HVDC transmission line and approximately 53% of the required towers have been erected. Stringing of the line is 13% complete. At March 31, 2017, life to date expenditures for the Bipole III Reliability Project totaled $3 152 million.

The Keeyask Generating Station will be a source of renewable energy, providing approximately 695 megawatts of capacity and producing an average of 4 400 gigawatt hours of electricity each year. The renewable hydroelectric energy produced will be integrated into the corporation's electric system to maintain a reliable supply for Manitoba with surplus energy available for export until necessary to meet domestic requirements.

During the 2017 fiscal year, concrete placements began on the Powerhouse, Intake, Tailrace, Service Bay and Spillway with a total of 80 000 m^3 of concrete placed by March 31, 2017. Work also continued on the permanent earthworks, including the North and Central Dams and North Dyke. Progress on the concrete and permanent earthworks was slower than planned which impacted the project schedule and budget. A new control budget of $8.7 billion and a revised first unit in-service date of August 2021 for the project was approved by the MHEB in early 2017. At March 31, 2017, life to date expenditures for Keeyask generation and related transmission amounted to $3 264 million.

Capital expenditures needed for additions, improvements and replacement of existing infrastructure amounted to $530 million, a decrease of $4 million compared to the previous fiscal year. This includes investments in urban and rural distribution station development such as the refurbishment of the St. Vital substation and the new Adelaide substation required to address increasing load requirements. In addition, transmission capacity enhancements in Lake Winnipeg East vicinity were necessary to accommodate higher than average load growth and system expansion. Manitoba Hydro is also investing in the replacement and refurbishment of existing assets to address asset degradation and obsolescence given that many of the corporation's assets were installed several decades earlier.

Electric Capital Expenditures
For the year ended March 31
millions of dollars



Wuskwatim Power Limited Partnership

The WPLP owns and operates the Wuskwatim Generating Station and related works, excluding the transmission facilities. The WPLP has two limited partners, Manitoba Hydro and Taskinigahp Power Corporation (TPC), which is owned beneficially by Nisichawayasihk Cree Nation, and a General Partner which is a wholly-owned subsidiary of Manitoba Hydro.

The WPLP reported a net loss for 2016-17 of $36 million which is consistent with the expectations for the early years of operation. This is compared to a net loss of $31 million in 2015-16. Manitoba Hydro's 67% share of the loss was $24 million (2016 - $21 million) and TPC's 33% share of the loss was $12 million (2016 - $10 million).

Keeyask Hydropower Limited Partnership

The KHLP was formed to carry on the business of developing, owning and operating the Keeyask Generating Station and related works excluding the transmission facilities but including all dams, dikes, channels, excavations and roads. Manitoba Hydro, Cree Nation Partners (owned beneficially by Tataskweyak Cree Nation and War Lake), FCLN Keeyask Investments Inc. (owned beneficially by Fox Lake) and York Factory First Nation Limited Partnership (owned beneficially by York Factory) are limited partners of KHLP. The General Partner is a wholly-owned subsidiary of Manitoba Hydro. The KHLP will have no impact on the statement of income until the generating station goes into service.

Natural Gas Segment

Centra Gas Manitoba Inc. (Centra) is a wholly-owned subsidiary of Manitoba Hydro. Centra distributes natural gas to 253 357 residential and 25 911 commercial and industrial customers in Manitoba.

The net income in the natural gas segment was $4 million in 2016-17 compared to a net loss of $1 million in the previous fiscal year. The increase in net income over the previous year was primarily attributable to higher gross margin from increased customer usage, colder winter weather compared to 2015-16 and an increase in the total number of customers.

Natural Gas Revenues and Cost of Gas

For the natural gas segment, customer classes are distinguished based on the level of annual consumption and include residential, large and small general service, large commercial and industrial as well as interruptible and transportation service. Interruptible customers may have service interrupted periodically upon notice in exchange for a reduced rate. Transportation service customers purchase their own gas commodity and pay only for the delivery of natural gas.

Revenues from the sale and distribution of natural gas during 2016-17 were $343 million, a decrease of $11 million from the previous year. The decrease in revenue is primarily due to the impact of lower weighted average cost of gas (WACOG) charged to customers partially offset by higher usage, colder weather compared to prior year and customer growth. Natural gas deliveries were 1 986 million cubic metres in 2016-17 compared to 1 846 million cubic metres in 2015-16.

As directed by the PUB, $3.8 million of revenue from 2016-17 was set aside to continue a program targeted to low-income customers and qualifying seniors on fixed incomes to assist in the replacement of low efficiency furnaces with high efficiency furnaces. At March 31, 2017, there is a remaining balance of $23 million in the Furnace Replacement Program.

The breakdown of natural gas revenue is as follows:

Natural Gas Revenues and Deliveries
For the year ended March 31

	2017	2016	% change	2017	2016	% change
	millions of dollars			*millions of cubic metres*		
Residential	172	177	(2.8)	524	498	5.2
Large general service	106	109	(2.8)	501	463	8.2
Large commercial & industrial	27	29	(6.9)	161	154	4.5
Small general service	26	26	-	95	87	9.2
Interruptible	6	7	(14.3)	44	44	-
Transportation service and other	6	6	-	661	600	10.2
Revenue	343	354	(3.1)	1 986	1 846	7.6

The actual cost of gas purchased is comprised of all expenses incurred in the procurement and delivery of natural gas to the Manitoba marketplace, including commodity supply, transportation and storage costs either from Western Canada or U.S. sources.

Centra purchased 893 million cubic metres of natural gas based on monthly Alberta indexed pricing, 182 million cubic metres under daily Alberta indexed pricing and 305 million cubic metres from a number of other supply sources. Centra also delivered natural gas on behalf of brokers to 10 701 (2016 - 14 145) customers receiving natural gas under Direct Purchase arrangements.

Cost of Gas Sold
For the year ended March 31

	2017	2016	change
	millions of dollars		
Cost of gas sold			
Purchased costs	183	181	2
PGVA	16	34	(18)
WACOG	199	215	(16)

The cost of gas during 2016-17 was $183 million, an increase of $2 million from the previous year. This increase was the net impact of the costs of gas charged to customers through rates and the change in PGVA. The differences between the cost of gas embedded in customer rates (WACOG) and the actual cost of gas purchased are accumulated in the PGVAs, which ensures that only the actual cost of gas, no more or less, is ultimately passed on to customers. Any differences in these accounts are either refunded to, or collected from, customers in future rates.

For income statement purposes the actual cost of gas purchased is adjusted in the net movement in regulatory balances for the impact of the PGVA accounts. For 2016-17, the total of actual cost of gas purchased combined with the PGVA adjustment is $199 million compared to $215 million for 2015-16.

The resulting gross margin after considering the net movement in PGVAs is $144 million for 2016-17 compared to $139 million for 2015-16, which is an increase of $5 million due to higher customer usage, colder winter weather and an increase in the total number of customers.

Natural Gas Rates

In accordance with Centra's quarterly rate-setting methodology, annualized rates for natural gas supplied to residential customers changed during 2016-17 as follows:

- May 1, 2016 3.3% decrease
- August 1, 2016 6.5% increase
- November 1, 2016 9.9% decrease
- February 1, 2017 4.5% increase

The change in natural gas rates reflects the fluctuations in pricing for natural gas purchased by Centra, and for November 2016, also reflects the removal of rate riders that were recovering gas costs from prior periods.

Natural gas prices have been declining since 2009 and while there have been price increases this year, the average bill is still low relative to 10 years ago. Manitoba Hydro's natural gas customers have benefited as a result. The total annual natural gas bill for a typical residential customer in Manitoba in 2016-17 was 28% lower than in 2006-07.

Centra did not apply to the PUB for a general rate increase related to non-gas costs in 2016-17.

Centra offers a fixed rate service for primary natural gas supply which allows customers to fix their natural gas rates for terms of up to five years. The fixed rate service is offered to residential and commercial customers. At March 31, 2017 there were 99 customers (2016 – 154 customers) on Centra's fixed rate service. Total natural gas deliveries under this service were 0.8 million cubic metres (2016 – 1.4 million cubic metres).

Natural Gas Expenses

Expenses attributable to the natural gas operations, excluding cost of gas sold, amounted to $147 million in 2016-17, which was $1 million lower than the previous year primarily due to a decrease of $2 million in operating and administrative expenses and a $1 million decrease in finance expenses, partially offset by a $2 million increase in other expenses. The decrease in operating and administrative expenses is the result of lower requirements for gas meter sampling and refurbishment, lower property tax assessment work and lower bad debt expense as a result of improved collection processes. The increase in other expenses is due to increased spending on the Affordable Energy Program compared to prior year.

Natural Gas Expenses
For the year ended March 31, 2017

Natural Gas Expenses
For the year ended March 31

	2017	2016	% change
	millions of dollars		
Operating and administrative	65	67	(3.0)
Finance expense	19	20	(5.0)
Depreciation and amortization	23	23	-
Capital and other taxes	16	16	-
Other expenses	12	10	20.0
Corporate allocation	12	12	-
	147	148	(0.7)

Natural Gas Net Movement in Regulatory Balances

The natural gas net movement in regulatory balances captures the timing differences between financial reporting under IFRS and those amounts approved by the PUB for rate-setting purposes. The change in the net movement in regulatory balances of $17 million was primarily the result of the change in the PGVA balance due to lower collection of prior gas costs from customers and higher purchased gas costs, partially offset by transportation costs.

Natural Gas Capital Expenditures

The capital expenditure program relates to new business, system improvement and other expenditures to meet the needs of the natural gas customers. Capital expenditures in the natural gas sector were $59 million in 2016-17 compared to $40 million in the previous fiscal year. The increase is primarily due to the Winnipeg North West Upgrades project which increased $10 million over the prior year. The project is required to increase capacity and reliability of Manitoba Hydro's gas supply system in an area serving 80% of natural gas customers. The remaining increase relates to projects addressing system upgrades in order to meet reliability, safety and operational requirements.

Other Segments

In addition to Centra, Manitoba Hydro has the following wholly-owned subsidiaries involved in energy-related business enterprises:

Manitoba Hydro International Ltd. (MHI) provides professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

Manitoba Hydro Utility Services Ltd. (MHUS) provides meter reading and related services to Manitoba Hydro, Centra and other utilities.

Manitoba Hydro also owns Minell Pipelines Ltd. (Minell) and Teshmont LP Holdings Ltd. (Teshmont).

The following table provides a summary of the financial results of the subsidiary companies excluding Centra. The results of Minell and Teshmont are included in Other in the table below:

Other Segments
For the year ended March 31

	MHI		MHUS		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	millions of dollars							
Revenues	59.7	61.5	4.7	4.9	1.1	0.8	65.5	67.2
Expenses	48.5	52.8	5.1	5.0	0.6	0.4	54.2	58.2
Net income (loss)	11.2	8.7	(0.4)	(0.1)	0.5	0.4	11.3	9.0

Risk Management

Manitoba Hydro faces a number of risks in the fulfillment of its mission and mandate. These risks are managed through a systematic, proactive and integrated process which is designed to balance the objectives of:

- identifying threats that affect the achievement of the corporation's mission and mandate;
- mitigating the consequences of negative occurrences; and
- taking advantage of opportunities to provide benefits to all stakeholders.

Most risk management efforts are focused on reducing the occurrence of negative events. However, the corporation also has plans in place to reduce the impacts should a negative event occur. These plans are under continual assessment. In addition, all safety and reliability risks are managed through strict adherence to design, construction and operating standards and practices together with extensive public education and employee training programs. A comprehensive Emergency Response Program is also in place to ensure an effective and coordinated response to possible emergencies or disasters.

The financial and operational risks associated with the management of an integrated electricity and natural gas distribution utility are significant. These risks include the impacts of new infrastructure development, aging infrastructure renewal and replacement, weather on both supply and demand and equipment failure, price and market uncertainties, interest, inflation and foreign exchange rates, skilled labour availability and costs, increasing regulatory, environmental and legal requirements and accelerated technological change. Manitoba Hydro manages these risks through an integrated control framework and through the growth and maintenance of an adequate level of financial reserves in the form of retained earnings.

The most significant risks facing Manitoba Hydro are catastrophic infrastructure failure, extreme drought, loss of export market access and higher rising interest rates. These risks are quantified in the following table:

RISK	POTENTIAL FINANCIAL IMPACT
Infrastructure	Greater than $2.0 billion
Drought	Greater than $1.4 billion for a five year drought
Loss of export market	Greater than 20% of electricity revenue
Interest rates	Approximately $1.0 billion for a 1% change over 10 years

Outlook

Manitoba Hydro entered fiscal 2017-18 with above average water levels as storage was at record high levels. Snowmelt runoff at a number of locations in the system was also at record levels, with some areas in the north experiencing spring flooding. With more water available than can be used for generation, Manitoba Hydro will be spilling water well into summer 2017. Given the above average storage levels and snowmelt runoff at the beginning of the fiscal year and assuming normal precipitation going forward, hydraulic generation is expected to be above average for 2017-18, which will mark the 14th consecutive year of such water flows. Short term export market prices in 2016-17 were relatively flat when compared to 2015-16 and limited near-term price appreciation is anticipated. Based on current water conditions and assuming approval of Manitoba Hydro's requested August 1, 2017 rate increase, Manitoba Hydro expects its net income for 2017-18 to be higher than was experienced in 2016-17.

The corporation has embarked on a plan to address the growing financial challenges facing the corporation. Manitoba Hydro has accelerated cost reductions including a completed streamlining of the management team and a reduction in the corporation's workforce by eliminating approximately 900 full-time equivalent employees. This began with a voluntary departure program launched in April 2017 that will see over 800 employees leave Manitoba Hydro before the end of the 2017-18 fiscal year. Further savings are being pursued in procurement spending. Fiscal 2018 will include a one-time restructuring cost that will be offset over the longer term with operating and administrative savings of approximately $70 million annually.

The corporation's earnings can fluctuate significantly due to various non-controllable factors such as the amount of water inflows, weather, domestic load requirements particularly related to the usage of a handful of very large industrial users, market prices for electricity and interest rates. The impact on earnings with respect to water inflows is particularly sensitive to spring and summer precipitation levels. The net income outlook for 2017-18 assumes the continuation of current water flow and export market conditions and normal winter weather.

Management Report

For the year ended March 31, 2017

The accompanying consolidated financial statements have been prepared by management of the Manitoba Hydro-Electric Board (the corporation), who are responsible for the integrity, consistency and reliability of the information presented. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

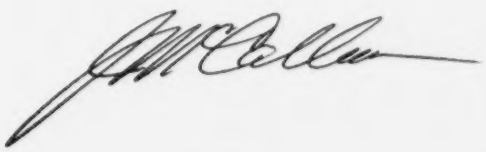
The preparation of the consolidated financial statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances. The preparation of the consolidated financial statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been prepared within reasonable limits of materiality in light of information available up to July 5, 2017.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls, which is designed to provide reasonable assurance that the corporation's assets are safeguarded and appropriately accounted for, that financial information is relevant, reliable and accurate, and that transactions are properly authorized and executed. The system includes formal policies and procedures as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function evaluates the effectiveness of these controls and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, which is comprised of outside and unrelated directors, meets periodically with management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its responsibility with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The consolidated financial statements were reviewed by the Audit Committee, and on their recommendation, were approved by the Board of Directors. The consolidated financial statements have been examined by Ernst & Young LLP, Chartered Professional Accountants, as appointed by the Lieutenant Governor in Council. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with International Financial Reporting Standards. The Auditors' Report outlines the scope of their examination and their opinion.

On behalf of management:



Kelvin Shepherd, P. Eng
President & Chief Executive Officer

Jamie McCallum
Chief Finance & Strategy Officer

Winnipeg, Canada
July 5, 2017

Independent Auditors' Report

To the Board of Directors of Manitoba Hydro-Electric Board

We have audited the accompanying consolidated financial statements of **Manitoba Hydro-Electric Board**, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of income, comprehensive loss, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Manitoba Hydro-Electric Board** as at March 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Winnipeg, Canada,
July 5, 2017

Ernst & Young LLP

Chartered Professional Accountants

Consolidated Statement of Income

For the year ended March 31

millions of Canadian dollars

	Notes	2017	2016
Revenues			
Domestic			
Electric		1 419	1 399
Gas		342	353
Extraprovincial	5	460	415
Other	6	106	91
		2 327	2 258
Expenses			
Cost of gas sold		183	181
Finance expense	7	645	620
Operating and administrative	8	608	614
Depreciation and amortization	9	402	394
Water rentals and assessments		131	126
Fuel and power purchased	10	132	117
Capital and other taxes	11	139	123
Other expenses	12	104	114
Finance income		(17)	(23)
		2 323	2 266
Net income (loss) before net movement in regulatory balances		4	(8)
Net movement in regulatory balances	20	55	47
Net Income		59	39
Net income (loss) attributable to:			
Manitoba Hydro		71	49
Non-controlling interests	28	(12)	(10)
		59	39

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

As at March 31

millions of Canadian dollars

	Notes	2017	2016
Assets			
Current Assets			
Cash and cash equivalents	13	646	955
Accounts receivable and accrued revenue	14	385	372
Prepaid expenses		123	40
Inventory	15	108	117
		1 262	1 484
Property, Plant and Equipment	16	19 757	17 208
Non-Current Assets			
Goodwill		107	107
Intangible assets	18	293	194
Loans and other receivables	19	353	300
		753	601
Total assets before regulatory deferral balance		21 772	19 293
Regulatory deferral balance	20	566	486
Total assets and regulatory deferral balance		22 338	19 779

On behalf of the Board of Directors:

H. Sanford Riley
Chair of the Board

Michael C. Pyle, MBA
Chair of the Audit Committee

	Notes	2017	2016
Liabilities and Equity			
Current Liabilities			
Current portion of long-term debt	21	336	326
Accounts payable and accrued liabilities	22	1 087	722
Other liabilities	23	83	80
Accrued interest		114	104
		1 620	1 232
Long-Term Debt	21	16 102	14 201
Non-Current Liabilities			
Other long-term liabilities	24	638	655
Employee future benefits	25	818	859
Deferred revenue	26	653	535
Provisions	27	70	53
		2 179	2 102
Total liabilities		19 901	17 535
Equity			
Retained earnings		2 899	2 828
Accumulated other comprehensive loss		(709)	(776)
Equity attributable to Manitoba Hydro		2 190	2 052
Non-controlling interests	28	170	140
Total equity		2 360	2 192
Total liabilities and equity before regulatory deferral balance		22 261	19 727
Regulatory deferral balance	20	77	52
Total liabilities, equity and regulatory deferral balance		22 338	19 779

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31

millions of Canadian dollars

	2017	2016
Operating Activities		
Cash receipts from customers	2 314	2 331
Cash paid to suppliers and employees	(875)	(988)
Interest received	17	23
Interest paid	(584)	(582)
Cash provided by operating activities	872	784
Investing Activities		
Additions to property, plant and equipment	(2 924)	(2 322)
Additions to intangible assets	(122)	(32)
Additions to regulatory deferral balances	(88)	(90)
Contributions received	134	85
Cash paid to the City of Winnipeg	(16)	(16)
Cash paid for mitigation obligations	(21)	(33)
Cash paid for major development obligations	(11)	(22)
Other	12	(4)
Cash used for investing activities	(3 036)	(2 434)
Financing Activities		
Proceeds from long-term debt	2 186	2 165
Retirement of long-term debt	(320)	(362)
Repayment from (advances to) external entities	(53)	164
Proceeds from partnership issuances	42	30
Sinking fund investment withdrawals	146	246
Sinking fund investment purchases	(146)	(132)
Cash provided by financing activities	1 855	2 111
Net (decrease) increase in cash and cash equivalents	(309)	461
Cash and cash equivalents, beginning of year	955	494
Cash and cash equivalents, end of year	646	955

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income (Loss)

For the year ended March 31

millions of Canadian dollars

	2017	2016
Net Income	59	39
Other comprehensive income (loss)		
Items that will not be reclassified to income		
Net experience gains (losses) on pensions	94	(8)
Items that will be reclassified to income		
Cash flow hedges - unrealized foreign exchange losses on debt	(47)	(47)
Items that have been reclassified to income		
Cash flow hedges - realized foreign exchange losses (gains) on debt	20	(1)
	67	(56)
Comprehensive Income (Loss)	126	(17)
Comprehensive income (loss) attributable to:		
Manitoba Hydro	138	(7)
Non-controlling interests	(12)	(10)
	126	(17)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

millions of Canadian dollars

	Notes	Retained earnings	Accumulated other comprehensive income (loss)	Manitoba Hydro	Non-controlling interests	Total equity
Balance as at April 1, 2015		2 779	(720)	2 059	120	2 179
Net income (loss)		49	-	49	(10)	39
Other comprehensive loss		-	(56)	(56)	-	(56)
Comprehensive income (loss)		49	(56)	(7)	(10)	(17)
Change in ownership interest	28	-	-	-	30	30
Balance as at March 31, 2016		2 828	(776)	2 052	140	2 192
Net income (loss)		71	-	71	(12)	59
Other comprehensive income		-	67	67	-	67
Comprehensive income (loss)		71	67	138	(12)	126
Change in ownership interest	28	-	-	-	42	42
Balance as at March 31, 2017		2 899	(709)	2 190	170	2 360

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 Reporting entity

The Manitoba Hydro-Electric Board and the Manitoba Power Commission were amalgamated in 1961 by enactment of *The Manitoba Hydro Act* to form a Crown corporation in the Province of Manitoba named Manitoba Hydro (the corporation). Manitoba Hydro's mandate is to provide for the continuance of a supply of energy adequate for the needs of the Province and to engage in and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy. The head office of the corporation is located at 360 Portage Avenue, Winnipeg, Manitoba.

These consolidated financial statements include the accounts of Manitoba Hydro and its wholly-owned subsidiaries including Centra Gas Manitoba Inc. (Centra), Minell Pipelines Ltd. (Minell), Manitoba Hydro International Ltd. (MHI), Manitoba Hydro Utility Services Ltd. (MHUS), Teshmont LP Holdings Ltd. (which has a 40% ownership interest in the Teshmont Consultants Limited Partnership) and 6690271 Manitoba Ltd. (a subsidiary that was formed to participate in the development of a new transmission line in the U.S.). These consolidated financial statements also include Manitoba Hydro's 67% ownership interest in the Wuskwatim Power Limited Partnership (WPLP) and its 75% ownership interest in the Keeyask Hydropower Limited Partnership (KHLP). For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Note 2 Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were approved for issue by the Manitoba Hydro-Electric Board on July 5, 2017.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statement of financial position:

- Financial instruments accounted for in accordance with the financial instrument categories defined in Note 3(n)
- Employee future benefits defined in Note 3(k)
- Provisions defined in Note 3(l)

(c) Functional and presentation currency

The consolidated financial statements are presented in millions of Canadian dollars, the functional currency of the corporation.

(d) Use of estimates and judgment

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported as assets, liabilities, income and expenses.

Areas of significant management estimates are outlined in the following summary and significant accounting policies included in Note 3:

- Accrued revenue for domestic electricity and natural gas deliveries not yet billed at year-end and allowance for doubtful accounts (Note 3(b))
- Useful life estimates for depreciable assets (Notes 3(g), 16 and 18)
- Measurement of accrued liabilities (Note 22)
- Measurement of other long-term liabilities and underlying estimates of future cash flows (Note 24)
- Measurement of employee future benefits and underlying actuarial assumptions (Notes 3(k) and 25)
- Measurement of provisions and underlying estimates of future cash flows (Notes 3(l) and 27)
- Fair value measurement of financial instruments (Notes 3(n) and 29)

Estimates and underlying assumptions are reviewed on an ongoing basis. Actual amounts could differ from those estimates, but differences are not expected to be material.

Note 3 Significant accounting policies

(a) Regulatory deferral accounts

In January 2014, the International Accounting Standards Board (IASB) issued an interim standard, IFRS 14 *Regulatory Deferral Accounts*, which provides guidance on accounting for the effects of rate regulation under IFRS. This guidance allows entities that conduct rate-regulated activities to continue to recognize regulatory deferral accounts. This interim standard is effective for financial reporting periods beginning on or after January 1, 2016. The corporation has elected to adopt IFRS 14 in its consolidated financial statements. The interim standard is only intended to provide temporary guidance until the IASB completes its comprehensive project on rate-regulated activities. IFRS 14 remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expenses for regulatory purposes and the recognition of those items for financial reporting purposes. Regulatory deferral account balances arising from rate-regulated activities are recognized and measured separately if they do not meet the criteria to be recognized as an asset or liability in accordance with other standards. The balances recorded as regulatory deferral balances will be recovered or refunded in future rates, based on approvals by the Public Utilities Board of Manitoba (PUB). These amounts would otherwise have been included in the determination of net income in the year they are incurred.

Under rate regulation, the prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the PUB. The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and natural gas service plus a sufficient contribution to retained earnings.

The following regulatory deferral account balances are initially recorded at cost and amortized on a straight-line basis using the specified periods:

Demand side management (DSM) programs	10 years*
Site restoration costs	15 years
Deferred taxes	30 years
Acquisition costs	30 years
Regulatory costs	up to 5 years

*The DSM regulatory deferral debit balance includes the differences between actual and planned spending on electric and gas DSM for the 2013 to 2017 fiscal years with a corresponding regulatory deferral credit balance. The disposition of these balances will be determined by the PUB at a future regulatory proceeding.

The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the obligation is drawn down. The purchased gas variance account (PGVA) is recovered or refunded over a period determined by the PUB.

The amortization of the loss on disposal of assets, change in depreciation methodologies from average service life (ASL) to equal life group (ELG), deferred ineligible overhead and the impact of the 2014 depreciation study will be determined by the PUB at a future regulatory proceeding.

(b) Revenue recognition

Domestic electricity and natural gas revenues are recognized upon delivery to the customer and charged in accordance with rates approved by the PUB. Unbilled revenues are recorded based on an estimated amount of electricity and natural gas delivered and not yet billed at year-end.

Extraprovincial electricity revenue is recorded upon the delivery of energy or settlement of the financial transaction.

Consulting, technology and maintenance services and other miscellaneous revenue is recognized when services are provided or goods are shipped to the customer. Revenue from fixed price contracts is recognized under the percentage-of-completion method. The percentage of completion is determined by comparing the costs incurred at the consolidated statement of financial position date to the total estimated costs, which include costs incurred plus anticipated costs for completing a contract.

Deferred revenue related to customer contributions is recognized over the life of the related asset for which the contribution was received.

(c) Cost of gas

Natural gas is recorded at purchased cost upon delivery to gas customers.

(d) Finance expense and finance income

Finance expense includes interest on short and long-term borrowings and the provincial debt guarantee fee paid to the Province of Manitoba, foreign exchange gains and losses, accretion expense on provisions and other long-term liabilities, offset by interest capitalized for those qualifying assets under construction. All borrowing costs are recognized using the effective interest rate method. Finance income includes interest earned on loans and advances to external parties and temporary investments.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(f) Inventory

Materials and supplies, fuel and natural gas inventories are valued at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value for materials and supplies and fuel inventory.

Materials, supplies, fuel and natural gas are charged to inventory when purchased and not immediately required for use. These inventories are expensed or capitalized when used. Those materials, supplies and fuel purchased for immediate use are expensed directly.

(g) Property, plant and equipment

Property, plant and equipment (PP&E) is recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, contracted services, direct labour and interest applied at the weighted average cost of debt outstanding during the period. Interest is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in-service property, plant and equipment is made, interest allocated to construction ceases and depreciation and interest charged to operations commence.

Depreciation is calculated on a straight-line remaining life basis using the ELG procedure. The major components of generating stations are depreciated over the lesser of the remaining life of the major components or the remaining life of the associated generating station.

Generation	4 – 125 years
Transmission lines	10 – 85 years
Substations	15 – 65 years
Distribution systems	10 – 75 years
Other	5 – 100 years

The estimated service lives of the assets are based upon depreciation studies conducted periodically by the corporation. A depreciation study was last completed in 2015.

The net gain or loss on retirement of these assets is charged to depreciation in the period incurred and then removed through net movement in regulatory balances to a regulatory debit balance. When the costs of removing an asset from service are incurred to facilitate the installation of a new asset, the costs to remove the asset from service are added to the costs of the new asset. When an asset is retired from service and not replaced with a similar asset, the costs of removing the asset from service are treated similarly to the net gain or loss on retirement of assets.

A reasonable estimate of the present value of the future cash flows required to retire an asset from service is recorded when the recognition criteria for a provision (Note 3(l)(i)) are met. An equivalent amount is added to the carrying cost of the related asset and is amortized over the asset's remaining service life. The discount rate used to measure the cash flows reflects current market assessments of the time value of money and the risks specific to the obligation.

(h) Goodwill

Goodwill represents the amount of the corporation's investments in Centra and Winnipeg Hydro over and above the fair market value of the identified net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred.

(i) Intangible assets

Intangible assets include computer application development costs, land easements and transmission rights. Intangible assets are recorded at cost less accumulated amortization. The cost of computer application development includes software, direct charges for labour, materials, contracted services and interest during development applied at the weighted average cost of debt outstanding during the period. The corporation's intangible assets have finite useful lives and are amortized over their useful lives on a straight-line basis with the amortization included in depreciation and amortization expense. The expected useful lives are as follows:

Computer application developmen	5 - 11 years
Land easements	75 years
Transmission rights	1 - 12 years

Transmission rights are amortized over the contractual period of the right plus a one-term renewal. The estimated service lives of computer application development and land easements are based upon depreciation studies conducted periodically by the corporation. A depreciation study was last completed in 2015.

(j) Impairment of non-financial assets

Non-financial assets subject to impairment testing include goodwill, intangible assets and property, plant and equipment. The corporation tests goodwill and material intangible assets under construction at least annually for impairment. Assets subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment test is performed by comparing the carrying amount of the asset or cash generating unit (CGU) to its recoverable amount. The recoverable amount is calculated as the higher of the fair value less costs to sell and the present value of the future cash flows from an asset or CGU. The corporation has determined its CGUs to be at the segment level. This is the lowest level for which there are separately identifiable cash flows as rates for electricity and natural gas revenue are set by the PUB at the segment level. An impairment would be recognized as a charge against operations in the year of impairment if the carrying amount exceeds the recoverable amount.

(k) Employee future benefits

Manitoba Hydro provides future benefits, including pension and other benefits, to both existing and retired employees.

The costs and obligations of defined benefit pension plans and other benefits are determined by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives and inflation. Pension expense consists of the cost of pension benefits earned during the year and net interest income or expense. Interest income on plan assets is determined by multiplying the fair value of the plan assets by the discount rate used to determine the accrued benefit obligation at the start of the annual reporting period. This considers any changes in the plan assets held during the period as a result of contributions and benefit payments. Interest expense on the accrued benefit obligation is determined by multiplying the accrued benefit obligation by the discount rate used at the start of the annual reporting period.

Experience gains or losses on the asset and actuarial gains or losses on the obligation are recognized in other comprehensive income (OCI) in the period in which they occur. Past service costs, which arise when a change is made to plan benefits, are recognized immediately in profit or loss.

Other future benefits earned by employees include vacation, vested sick leave, severance and retirement health plans. Where applicable, the future costs of these benefits are determined by an independent actuary and reflect management's best estimates.

(l) Provisions

In accordance with International Accounting Standards (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is required to be recognized where there is a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which are uncertain.

(i) Asset retirement obligations

Asset retirement obligations are estimated by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a finance expense.

(ii) Affordable Energy Fund

The Affordable Energy Fund was determined based on Provincial Legislation. The timing of disbursements is uncertain due to the unpredictability of future customer participation.

(iii) Mitigation

Provisions arising from Manitoba Hydro's mitigation program are recognized when there is an expectation that expenditures will be incurred to address the adverse effects of past hydroelectric development on Indigenous and other communities. These provisions are based on management's best estimate of the consideration required to settle the obligation. The corporation reviews its estimates of future mitigation expenditures on an ongoing basis.

(iv) Other provisions

Other provisions have been established for obligations discovered, which require recognition in the financial statements due to the likelihood of settlement and the presence of an obligation, either from past events or constructive in nature.

(m) Government grants

Government grants are recognized when there is reasonable assurance they will be received and the corporation will comply with the conditions associated with the grant. Government grants that compensate the corporation for expenses incurred are recognized in profit or loss in the same period in which the expenses are recognized. Grants that compensate the corporation for the cost of an asset are recorded as deferred revenue and recognized in other revenue over the service life of the related asset.

(n) Financial instruments

All financial instruments are measured at fair value on initial recognition as of the trade date. Transaction costs are included in the initial carrying amount of financial instruments except for those financial instruments measured at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial instruments classified as fair value through profit or loss are expensed as incurred. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following categories: loans and receivables, fair value through profit or loss, available-for-sale or other financial liabilities.

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recorded in OCI until the instrument is derecognized or impaired. Financial instruments classified as fair value through profit or loss are subsequently measured at fair value with changes in fair value recognized in the consolidated statement of income in the period in which they arise.

Financial assets classified as loans and receivables are subject to impairment testing at the end of each reporting period. Impairment losses are recorded when there is objective evidence that impairment has occurred due to one or more events such as default or delinquency in interest or principal payments, or significant financial difficulty experienced by the counterparty. Trade receivables that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the corporation's past historical loss rates applied to groups for which the historical loss rates were observed.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced with substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability is recorded at fair value. The differences in the respective carrying amounts are recognized as gains or losses in net income.

(o) Foreign currency translation

Revenues and expenses resulting from transactions in foreign currencies are translated to Canadian dollar equivalents at exchange rates approximating those in effect at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Translation gains and losses are credited or charged to finance expense in the current period except for long-term debt obligations in hedging relationships with future export revenues. Translation gains and losses for long-term debt obligations in hedging relationships with future export revenues are recorded in OCI until such time that the hedged export revenues are realized, at which time accumulated exchange gains and losses are credited or charged to finance expense.

(p) Derivatives

The corporation does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the consolidated statement of financial position with the exception of those that were entered into for the purpose of physical receipt or delivery in accordance with the corporation's expected normal purchases and sales. Changes in the fair value of derivatives that are not designated in a hedging relationship and do not qualify for the normal purchase and sale exemption are recorded in the consolidated statement of income.

(q) Hedges

The corporation has designated cash flow hedges linking financial instruments to specific assets and forecasted transactions. Long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. The corporation documents the relationship between the hedging instrument and the hedged item and assesses at inception, and on an ongoing basis, the effectiveness of the hedging relationship.

(r) Non-controlling interests

Non-controlling interests represent the outstanding ownership interests attributable to third parties in the corporation's limited partnerships. The portion of the equity not owned by the corporation is reflected as non-controlling interests within the equity section of the consolidated statement of financial position. The portion of the net income or net loss attributable to the parent and non-controlling interests is reported on the consolidated statement of income.

Note 4 Future accounting pronouncements

The following new standards and amendments are not yet effective for the year ended March 31, 2017, and have not been applied in preparing these consolidated financial statements. The corporation does not have any plans to early adopt the new standards and the full extent of the impact on adoption of the following standards is not known at this time:

IFRS 9 – *Financial Instruments*

IFRS 9 *Financial Instruments* was finalized in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance for the classification and measurement of financial assets and liabilities, a new expected credit loss model to measure impairment of financial assets and significant improvements in hedge accounting. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 – *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and replaces IAS 18 *Revenue* and IFRS Interpretations Committee (IFRIC) 18 *Transfers of Assets from Customers*. The standard provides a single five-step model to be applied to all contracts with customers to determine when to recognize revenue and at what amount. The underlying principle of IFRS 15 is that an entity recognizes revenue that shows the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 – *Leases*

IFRS 16 *Leases* was issued in January 2016 and replaces current lease accounting requirements under IFRS. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

Note 5 Extraprovincial revenue

	2017	2016
Dependable sales	249	206
Opportunity sales	202	197
Other	9	12
	460	415

Dependable sales are sourced from Manitoba Hydro's hydraulic energy available during lowest water conditions and typically with a duration of greater than six months. Opportunity sales are based on excess energy, are generally over shorter periods and are transacted primarily in markets operated by an independent system operator such as the Midcontinent Independent System Operator.

The majority of extraprovincial revenue is from sales to the U.S. The average effective exchange rate for the year was $1.00 U.S. = $1.31 Canadian (2016 - $1.00 U.S. = $1.30 Canadian).

Note 6 Other revenue

	2017	2016
Consulting, technology and maintenance services	56	57
Customer contributions	18	15
Miscellaneous revenue	32	19
	106	91

Consulting, technology and maintenance services consist of professional consulting, operations, maintenance and project management services provided to energy sectors world-wide.

Customer contributions are the recognition of deferred revenue related to contributions in aid of construction (Note 26) and the recovery of period costs from customers.

Note 7 Finance expense

	2017	2016
Interest on debt	711	654
Provincial debt guarantee fee	136	122
Accretion	29	30
Interest capitalized	(248)	(177)
Foreign exchange gain (loss)	17	(9)
	645	620

The Provincial debt guarantee fee during the year was 1.00% of the corporation's total outstanding debt guaranteed by the Province of Manitoba (2016 - 1.00%). Interest was capitalized during the year at 4.89% (2016 - 5.03%).

Note 8 Operating and administrative

	2017	2016
Salaries and benefits	457	461
External services	99	99
Materials, motor vehicles and supplies	35	35
Other	17	19
	608	614

Additional salaries and benefits are included in other expenses (Note 12) in the amount of $19 million (2016 - $16 million).

Note 9 Depreciation and amortization

	2017	2016
Depreciation of property, plant and equipment (Note 16)	383	366
Amortization of intangible assets (Note 18)	22	22
(Gain) loss on disposal of property, plant and equipment	(3)	6
	402	394

Note 10 Fuel and power purchased

	2017	2016
Wind purchases	73	63
Transmission charges	46	43
Thermal fuel purchases	8	8
Power purchases	5	3
	132	117

Note 11 Capital and other taxes

	2017	2016
Corporate capital tax	84	72
Property tax and grants in lieu of tax	38	37
Payroll tax	13	13
	135	123

Note 12 Other expenses

	2017	2016
Demand side management expenses	61	64
Consulting, technology and maintenance expenses	33	38
Restructuring costs	4	-
Miscellaneous	6	12
	104	114

Of the total other expenses, $67 million (2016 - $72 million) are subsequently deferred in regulatory deferral balances through net movement in regulatory balances (Note 20).

Note 13 Cash and cash equivalents

	2017	2016
Temporary investments	525	820
Cash	116	132
Restricted cash	5	3
	646	955

Temporary investments consist of cash invested with the Province of Manitoba and have a maturity of less than 30 days. Restricted cash consists of deposits held for letters of guarantees for customer contracts, callable at any time.

Note 14 Accounts receivable and accrued revenue

	2017	2016
Trade accounts receivable	249	241
Accrued revenue	85	79
Current portion of loans and other receivables (Note 19)	21	22
Other receivables	21	22
Taxes receivable	20	18
Allowance for doubtful accounts	(11)	(10)
	385	372

Note 15 Inventory

	2017	2016
Materials and supplies	66	66
Natural gas	25	32
Fuel	17	19
	108	117

Inventory recognized as an expense during the year was $41 million (2016 - $39 million). The write-down of inventory during 2017 was $1 million (2016 - nil). No reversals of write-downs occurred during the year (2016 - nil).

Note 16 Property, plant and equipment

	Generation	Transmission lines	Substations	Distribution systems	Other	Construction in progress	Total
Cost or deemed cost							
Balance, April 1, 2015	5 827	737	2 187	2 605	917	3 278	15 551
Additions	135	13	82	196	47	1 889	2 362
Disposals and/or retirements	(10)	-	(4)	(14)	(4)	-	(32)
Assets placed in service*	154	12	105	37	22	(330)	-
Transfers to (from) PP&E	-	1	2	-	(3)	-	-
Balance, March 31, 2016	6 106	763	2 372	2 824	979	4 837	17 881
Additions	119	22	36	218	53	2 519	2 967
Disposals and/or retirements	(7)	(3)	(5)	(15)	(18)	-	(48)
Assets placed in service*	47	15	87	64	32	(245)	-
Transfers to (from) PP&E	(1)	1	1	(4)	1	(25)	(27)
Balance, March 31, 2017	**6 264**	**798**	**2 491**	**3 087**	**1 047**	**7 086**	**20 773**
Accumulated depreciation							
Balance, April 1, 2015	119	13	75	71	51	-	329
Depreciation expense	128	13	85	84	56	-	366
Disposals and/or retirements	(8)	-	(5)	(7)	(2)	-	(22)
Balance, March 31, 2016	239	26	155	148	105	-	673
Depreciation expense	130	14	89	89	61	-	383
Disposals and/or retirements	(6)	(1)	(6)	(10)	(17)	-	(40)
Balance, March 31, 2017	**363**	**39**	**238**	**227**	**149**	**-**	**1 016**
Net book value							
Balance, March 31, 2016	5 867	737	2 217	2 676	874	4 837	17 208
Balance, March 31, 2017	**5 901**	**759**	**2 253**	**2 860**	**898**	**7 086**	**19 757**

*Represents projects that were in construction in progress at the beginning of the year.

Included in additions is interest capitalized during construction of $245 million (2016 - $174 million).

Note 17 Sinking fund investments

Manitoba Hydro is legislated under *The Manitoba Hydro Act* to make annual sinking fund payments to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31 and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year were $146 million (2016 - $132 million). Interest earned on sinking fund investments is recognized in finance expense. As at March 31, 2017 sinking fund investments totaled nil (2016 - nil).

Note 18 Intangible assets

	Computer application development	Land easements	Transmission rights	Under development	Total
Cost or deemed cost					
Balance, April 1, 2015	112	71	10	12	205
Additions	7	13	-	15	35
Retirements	(2)	-	-	-	(2)
Assets placed into service*	3	3	-	(6)	-
Balance, March 31, 2016	120	87	10	21	238
Additions	12	38	29	20	99
Retirements	(3)	-	-	-	(3)
Assets placed into service*	15	2	-	(17)	-
Transfers	-	-	25	-	25
Balance, March 31, 2017	**144**	**127**	**64**	**24**	**359**
Accumulated amortization					
Balance, April 1, 2015	18	1	3	-	22
Amortization	20	1	2	-	23
Retirements	(1)	-	-	-	(1)
Balance, March 31, 2016	37	2	5	-	44
Amortization	21	2	2	-	25
Retirements	(3)	-	-	-	(3)
Balance, March 31, 2017	**55**	**4**	**7**	**-**	**66**
Net book value					
Balance, March 31, 2016	83	85	5	21	194
Balance, March 31, 2017	**89**	**123**	**57**	**24**	**293**

Computer application development is a combination of internally developed and externally acquired intangible assets.

Note 19 Loans and other receivables

	2017	2016
Loan to Wuskwatim investment entity (Note 28)	135	128
Loans to Keeyask investment entities (Note 28)	135	90
Contract receivables and other	104	104
	374	322
Less: current portion (Note 14)	(21)	(22)
	353	300

Accrued interest related to loans receivable is included in the loan balances above and is recognized in finance income.

Note 20 Regulatory deferral balances

	March 31, 2016	Balances arising in the year	Recovery / reversal	March 31, 2017	Remaining recovery / reversal period (years)
Regulatory deferral debit balances					
Electric					
DSM programs[1]	232	56	(35)	253	1 - 10
Site restoration	31	1	(4)	28	1 - 15
Change in depreciation method	60	31	-	91	*
Deferred ineligible overhead	40	21	-	61	*
Acquisition costs	10	-	(1)	9	15 - 18
Affordable Energy Fund	4	-	-	4	**
Loss on disposal of assets	9	1	-	10	*
Regulatory costs	4	4	(2)	6	1 - 5
Gas					
DSM programs[1]	57	13	(9)	61	1 - 10
Deferred taxes	23	2	(4)	21	1 - 30
Site restoration	3	-	-	3	1 - 15
Loss on disposal of assets	6	3	-	9	*
Change in depreciation method	4	2	-	6	*
Regulatory costs	1	1	(1)	1	1 - 5
Deferred ineligible overhead	2	-	-	2	*
Change in depreciation rate - meters	-	1	-	1	*
	486	136	(56)	566	
Regulatory deferral credit balances					
Electric					
DSM deferral	43	6	-	49	*
Gas					
DSM deferral	6	2	-	8	*
PGVA	1	(182)	198	17	***
Impact of 2014 depreciation study	2	1	-	3	*
	52	(173)	198	77	
Net movement in regulatory balances		309	(254)	55	

[1] Included in DSM programs is the difference between actual and planned expenditures for electric and gas DSM programs.

* The amortization periods for these accounts will be determined by the PUB as part of a future regulatory proceeding.

** The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 27) is drawn down.

*** The PGVA is recovered or refunded in future rates.

	March 31, 2015	Balances arising in the year	Recovery / reversal	March 31, 2016	Remaining recovery / reversal period
					(years)
Regulatory deferral debit balances					
Electric					
DSM programs[1]	184	81	(33)	232	1 - 10
Site restoration	31	3	(3)	31	1 - 15
Change in depreciation method	29	31	-	60	*
Deferred ineligible overhead	20	20	-	40	*
Acquisition costs	11	-	(1)	10	15 - 18
Affordable Energy Fund	6	-	(2)	4	**
Loss on disposal of assets	6	3	-	9	*
Regulatory costs	1	4	(1)	4	1 - 5
Gas					
DSM programs[1]	55	10	(8)	57	1 - 10
PGVA	32	181	(213)	-	***
Deferred taxes	25	2	(4)	23	1 - 30
Site restoration	3	-	-	3	1 - 15
Loss on disposal of assets	3	3	-	6	*
Change in depreciation method	2	2	-	4	*
Regulatory costs	1	1	(1)	1	1 - 5
Deferred ineligible overhead	1	1	-	2	*
	410	342	(266)	486	
Regulatory deferral credit balances					
Electric					
DSM deferral	16	27	-	43	*
Gas					
DSM deferral	6	-	-	6	*
PGVA	-	-	1	1	***
Impact of 2014 depreciation study	1	1	-	2	*
	23	28	1	52	
Net movement in regulatory balances		314	(267)	47	

[1] Included in DSM programs is the difference between actual and planned expenditures for electric and gas DSM programs.

* The amortization periods for these accounts will be determined by the PUB as part of a future regulatory proceeding.

** The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 27) is drawn down.

*** The PGVA is recovered or refunded in future rates.

The balances arising in the year consist of additions to regulatory deferral balances. The recovery/reversal consists of amounts recovered from customers through the amortization of existing regulatory balances or rate riders. The net impact of these transactions results in the net movement in regulatory deferral balances on the consolidated statement of income.

Balances arising in the year include $2 million (2016 - $2 million) for carrying costs on deferred taxes, the Affordable Energy Fund and the PGVA.

The regulatory deferral debit balances of the corporation consist of the following:

DSM program expenditures are incurred for energy conservation programs to encourage residential, commercial and industrial customers to use energy more efficiently.

Site restoration expenditures are incurred for the remediation of contaminated corporate facilities and diesel generating sites.

Change in depreciation method represents the cumulative annual difference in depreciation expense between the ASL method of depreciation as applied by Manitoba Hydro prior to its transition to IFRS and the ELG method as applied by Manitoba Hydro under IFRS.

Deferred ineligible overhead is the cumulative annual difference in overhead capitalized for financial reporting purposes under IFRS and overhead capitalized for rate setting purposes.

Acquisition costs relate to costs associated with the acquisition of Centra and Minell (July 1999) and Winnipeg Hydro (September 2002).

The Affordable Energy Fund relates to future DSM expenditures in connection with *The Winter Heating Cost Control Act*. The intent of the Affordable Energy Fund is to provide funding for projects that would not otherwise be funded by DSM programs.

Loss on disposal of assets is the net asset retirement losses for those assets retired prior to or subsequent to reaching their expected service life as determined under the ELG method of depreciation.

Regulatory costs are those incurred as a result of electric and gas regulatory hearings.

Deferred taxes are the taxes paid by Centra (July 1999) as a result of its change to non-taxable status upon acquisition by Manitoba Hydro.

The regulatory deferral credit balances of the corporation consist of the following:

Purchased gas variance accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. Purchased gas variance accounts are reflected as a regulatory debit or credit depending if the amounts represent a recovery from or a refund to the customers, respectively.

Impact of 2014 depreciation study represents the cumulative unamortized difference in depreciation between the ASL method based on the 2010 depreciation study and the ASL method based on the 2014 depreciation study. The PUB requires the use of 2010 ASL depreciation rates for Centra for rate setting purposes pending review at the next gas regulatory proceeding.

DSM deferral - In Orders 43/13 and 85/13, the PUB directed that the differences between actual and planned spending on electric and gas DSM programs for the 2012-13 and 2013-14 fiscal years be recognized as a liability. In Order 73/15, the PUB further directed that the difference in fiscal 2014-15 and 2015-16 spending be added to this deferral. Consistent with Order 73/15, the difference in spending for 2016-17 has been added to the deferral. The cumulative differences have been recorded as a regulatory deferral credit balance with an offsetting balance recorded as a regulatory deferral debit balance. The disposition of these balances will be determined by the PUB at a future regulatory proceeding.

Note 21 Long-term debt

	Advances from the Province	Manitoba HydroBonds	Manitoba Hydro-Electric Board Bonds	Other*	Total
Balance, April 1, 2015	12 485	76	158	(39)	12 680
Issues	2 208	-	-	(43)	2 165
Maturities	(300)	(50)	(12)	-	(362)
Foreign exchange adjustments	44	-	-	(2)	42
Amortization of net premiums and transaction costs	-	-	(1)	3	2
Balance, March 31, 2016	14 437	26	145	(81)	14 527
Issues	2 163	-	-	23	2 186
Maturities	(301)	(19)	-	-	(320)
Foreign exchange adjustments	42	-	-	1	43
Amortization of net premiums and transaction costs	-	-	-	2	2
	16 341	7	145	(55)	16 438
Less: current portion	(310)	(6)	(20)	-	(336)
Balance, March 31, 2017	**16 031**	**1**	**125**	**(55)**	**16 102**

*Other includes adjustments to carrying value of dual currency bonds, transaction costs and debt discounts and premiums.

During the year, the corporation arranged long-term financing of $2 186 million (2016 - $2 165 million). The current year financing was in the form of provincial advances with the majority at fixed interest rates.

Included in the current portion of long-term debt are $330 million (2016 - $301 million) of debt maturities and $6 million (2016 - $25 million) of floating-rate Manitoba HydroBonds with a maturity date in 2018. Floating rate Manitoba HydroBonds are redeemable at the option of the holder.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of $65 million (2016 - $65 million) issued for mitigation projects.

Debt principal amounts (excluding adjustments to the carrying value of dual currency bonds, transaction costs, debt discounts and premiums) and related yields are summarized by fiscal years of maturity in the following table:

Years of maturity	Canadian	Canadian yields	U.S.	U.S. yields	**2017 Total**	2016 Total
2018	336	6.5%	-	-	**336**	331
2019	996	6.9%	-	-	**996**	996
2020	174	3.7%	200	6.0%	**374**	345
2021	975	3.0%	333	7.9%	**1 308**	1 299
2022	253	1.8%	866	8.8%	**1 119**	847
	2 734	3.8%	1 399	8.3%	**4 133**	3 818
2023-2027	2 936	3.0%	200	2.6%	**3 136**	2 198
2028-2032	1 126	7.9%	-	-	**1 126**	880
2033-2037	515	5.0%	-	-	**515**	515
2038-2042	2 194	4.6%	-	-	**2 194**	2 135
2043-2047	3 402	3.5%	-	-	**3 402**	3 125
2048-2064	1 986	3.7%	-	-	**1 986**	1 611
	14 893	4.0%	1 599	7.4%	**16 492**	14 282

Included in the above Canadian maturity amounts are seven dual currency bonds with the principal amount repayable in Canadian currency and interest payments denominated in U.S. currency. Six dual currency bonds mature in the 2018-19 fiscal year in the amount of $490 million Canadian while the seventh matures in the 2025-26 fiscal year in the amount of $130 million Canadian. U.S. debt is translated into Canadian dollars at the exchange rate prevailing at the consolidated statement of financial position date, $1.00 U.S. = $1.33 Canadian (2016 - $1.00 U.S. = $1.30 Canadian).

Note 22 Accounts payable and accrued liabilities

	2017	2016
Trade and other payables	970	601
Employee payroll and benefit accruals	68	77
Taxes payable	38	33
Water rentals and assessments	11	11
	1 087	722

Included in accounts payable and accrued liabilities are accruals based on an estimated amount of services completed or goods and materials received but not invoiced.

Note 23 Other liabilities

	2017	2016
Current portion of other long-term liabilities (Note 24)	78	77
Current portion of deferred revenue (Note 26)	4	2
Current portion of provisions (Note 27)	1	1
	83	80

The current portion of other long-term liabilities consists of the current portions of mitigation liability of $26 million (2016 - $30 million), major development liability of $31 million (2016 - $26 million), perpetual obligation to the City of Winnipeg for the acquisition of Winnipeg Hydro of $16 million (2016 - $16 million) and refundable advances from customers of $5 million (2016 - $5 million).

The current portion of provisions represents the asset retirement obligation for the removal and disposal of polychlorinated biphenyl (PCB) contaminated fluid in equipment bushings at transmission and distribution stations and for the decommissioning of the coal pile associated with the Brandon thermal generating station.

The current portion of deferred revenue represents advance payments from customers for software maintenance and international consulting work.

Note 24 Other long-term liabilities

	2017	2016
Mitigation liability	209	215
Major development liability	210	219
Perpetual obligation	215	215
Refundable advances from customers	79	80
Other	3	3
	716	732
Less: current portion (Note 23)	(78)	(77)
	638	655

Mitigation

Manitoba Hydro's mitigation program addresses past, present and ongoing adverse effects of historical hydroelectric development. The mitigation program, established in the late 1970s to address project impacts through alleviation of adverse effects, remedial works and residual compensation, grew out of the experience of planning and development of the Lake Winnipeg Regulation and Churchill River Diversion Projects. The Northern Flood Agreement, signed December 16, 1977, created a process that addressed ongoing mitigation and compensation for adverse effects of hydroelectric development in five signatory Indigenous communities. The mitigation program was expanded to address impacts arising from all past hydroelectric developments (prior to the Wuskwatim Generating Station), particularly for Indigenous people residing or engaged in resource harvesting in the project areas, and it is essential for operating and future development purposes.

Expenditures recorded or settlements reached to mitigate the impacts of historical hydroelectric development amounted to $63 million during the year (2016 - $31 million). In recognition of future mitigation payments, the corporation has recorded a liability of $209 million (2016 - $215 million). There are other mitigation issues, the outcomes of which are not determinable at this time.

Included in mitigation liabilities are obligations assumed on behalf of the Province of Manitoba with respect to certain northern development projects. The corporation has assumed obligations totaling $146 million for which water power rental charges were fixed until March 31, 2001. The obligation outstanding as at March 31, 2017 totaled $8 million (2016 - $9 million).

The discount rates used to determine the present value of mitigation obligations range from 3.45% to 8.50%.

Major development

Beginning with the development of the Wuskwatim Generating Station, project-related adverse effects are identified and addressed during project planning (including the environmental assessment process), which is done in advance of project construction. As such, mitigation measures are built into project design where possible. The costs for these mitigation measures, as well as any residual compensation requirements, are therefore accounted for in the capital cost estimates for each individual project.

Programs and adverse effects agreements have been negotiated to mitigate and compensate for all anticipated project-related impacts for major new generation and transmission development projects including Wuskwatim, Keeyask and Bipole III. The corporation has recorded a liability of $210 million (2016 - $219 million) to reflect these agreements. These expenditures are included in the costs of the associated projects and amortized over the life of the assets.

The discount rates used to determine the present value of the major development obligation range from 3.45% to 5.05%.

Perpetual obligation

Effective September 3, 2002, the corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The obligation represents the net present value of payments to the City of Winnipeg of $16 million per annum in perpetuity.

The discount rate used to determine the present value of the perpetual obligation was 7.45%.

Note 25 Employee future benefits

	2017	2016
Net pension liability	540	588
Other employee future benefits liability	278	271
	818	859

Pension plans

Manitoba Hydro and its employees are participating members of the Civil Service Superannuation Plan (the Plan) established under *The Civil Service Superannuation Act* (CSSA). Manitoba Hydro employees are eligible for pension benefits based on years of service and on the average earnings of the five best years. As a non-matching employer, the provisions of the CSSA require the corporation to contribute approximately 50% of the pension disbursements made to retired employees. Manitoba Hydro provides its portion of pension benefits through a separately administered fund, the Manitoba Hydro Pension Fund (MHPF). Manitoba Hydro and employees make contributions based on a percentage of pensionable earnings in accordance with the CSSA.

Manitoba Hydro employees with pensionable service after June 1, 2006 are eligible for an additional pension benefit under the Enhanced Hydro Benefit Plan (EHBP). The EHBP improves the pension formula used to calculate pension benefits. Manitoba Hydro funds the enhanced pension benefit through contributions based on 0.50% of pensionable earnings to a separate trust account that is managed by the Civil Service Superannuation Board (CSSB). The EHBP funds are co-mingled with the Civil Service Superannuation Fund (CSSF) assets for investment purposes.

The former employees of Centra are entitled to pension benefits earned under the Centra curtailed pension plans. The Centra curtailed pension plans are Registered Pension Trusts as defined in the *Income Tax Act (Canada)*. The Master Trust is made up of three individual plans including the Centra Gas Manitoba Inc. Pension Plan for Salaried Employees, the Centra Gas Manitoba Inc. Union Employees' Pension Plan and the Centra Gas Manitoba Inc. (Rural) Local 681 Pension Plan. Centra is required to make special payments to the plans at amounts considered necessary to ensure that the benefits will be fully provided for at retirement as determined in the actuarial valuation dated December 31, 2015. The plans are registered with the Pension Commission of Manitoba and subject to the rules and regulations of *The Pension Benefits Act* of Manitoba. The Master Trust assets are held in trust with State Street Trust Company of Canada. The CSSB acts as the investment manager.

MHUS employees are eligible for pension benefits under the Plan. As a matching employer under the CSSA, MHUS is required to match employee contributions at a prescribed rate. MHUS' pension expense is recognized at the time contributions are made. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to MHUS.

The former employees of Winnipeg Hydro continue to earn benefits under the Winnipeg Civic Employee Benefits Program (WCEBP), which upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to the former employees of Winnipeg Hydro. The WCEBP is governed by an independent board of trustees and a trust agreement that limits Manitoba Hydro's contribution rates. The structure of the trust agreement also limits Manitoba Hydro's exposure to future unfunded liabilities. Contributions to the plan are accounted for similar to a defined contribution plan.

MHI sponsors a defined contribution group registered retirement plan. MHI matches 100% of the employee contributions at prescribed contribution rates. The cost of the pension benefits is charged to pension expense as services are rendered. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements for the MHI defined contribution plan.

An independent actuary calculates the liability for pension expense purposes as at December 31 each year with the most recent actuarial valuations being completed as at December 31, 2016. The next actuarial valuations for all plans will occur as at December 2017.

These valuations incorporate management's assumptions and take into consideration the long-term nature of the pension plans. The actuary selects the demographic assumptions. The corporation's management in consultation with the actuary determines the economic assumptions such as discount rate. The accrued benefit actuarial cost method with salary projection is used to determine the pension benefit obligation and current service cost.

The following table presents information pertaining to the Manitoba Hydro Plan, the EHBP and the Centra curtailed plans that are recognized in the consolidated financial statements:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Plan assets at fair value								
Balance at beginning of year	938	974	24	21	121	126	1 083	1 121
Return (loss) on assets	104	(13)	2	1	13	(2)	119	(14)
Employer contributions	37	36	2	2	1	2	40	40
Benefit payments and refunds	(64)	(59)	(1)	-	(5)	(5)	(70)	(64)
	1 015	938	27	24	130	121	1 172	1 083
Pension obligation								
Balance at beginning of year	1 515	1 503	35	32	121	124	1 671	1 659
Interest cost	59	55	1	1	5	5	65	61
Current service cost	60	59	4	4	-	-	64	63
Benefit payments and refunds	(64)	(60)	(1)	-	(5)	(5)	(70)	(65)
Actuarial losses (gains) arising from changes in financial assumptions	(17)	(42)	(1)	(2)	-	(3)	(18)	(47)
	1 553	1 515	38	35	121	121	1 712	1 671
Net pension (liability) asset	(538)	(577)	(11)	(11)	9	-	(540)	(588)

The gain on pension fund assets for the MHPF for the fiscal year ended March 31, 2017 was 11.7% (2016 – (0.97)% return). The gain for the Centra curtailed plan fund assets for the year ended March 31, 2017 was 11.9% (2016 – (1.39)% return). The weighted average term to maturity on fixed income investments is 9.9 years (2016 - 9.8 years).

The investment income earned on the EHBP funds is based on the market rate of return that is earned by the CSSF. For the year ended December 31, 2016, the CSSF earned a rate of return of 5.66% (2016 – 7.63%) on fund assets.

The most recent actuarial valuations for the pension plans for going concern funding purposes were prepared as at December 31, 2016, at which date the Manitoba Hydro Plan was 89% and the EHBP was 102% funded. The Manitoba Hydro Plan is exempt from the funding and solvency test funding requirements of *The Pension Benefits Act*. The Centra curtailed pension plans are subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2016. The Centra Salaried, Union and Rural plans were 94%, 99% and 90% funded, respectively, at that date.

The corporation's pension expense related to each of the pension benefit plans is as follows:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans	
	2017	2016	2017	2016	2017	2016
Current service cost	60	59	4	4	-	-
Interest on assets	(39)	(38)	(1)	(1)	(5)	(5)
Interest on obligation	59	55	1	1	5	5
Administrative fees	4	3	-	-	1	-
	84	79	4	4	1	-

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP. Total contributions to the WCEBP during the year amounted to $1 million (2016 - $1 million) and reflect an employer contribution rate approximating 6.0% of pensionable earnings as of January 2, 2017. Pension expense for MHUS and MHI is equal to the employer contributions and is expensed during the year. The amounts are not material.

Assumptions

The significant actuarial assumptions adopted in measuring the corporation's pension and other employee benefit obligations are as follows:

	2017	2016
Discount rate - pensions	3.80%	3.90%
Discount rate - other benefits	3.80%	3.90%
Rate of compensation increase, including merit and promotions	0.00 - 2.00%	1.50 - 2.00%
Long-term inflation rate	2.00%	2.00%

Sensitivity of assumptions

The sensitivities of the principle assumptions used to measure the defined benefit obligations are set out below:

Assumption	Change in assumption	Impact on Manitoba Hydro Plan	Impact on EHBP	Impact on Centra curtailed pension plans
Discount rate	+ 0.50%	(106)	(3)	(7)
	- 0.50%	137	5	8
Inflation rate	+ 0.10%	(18)	-	(1)
	- 0.10%	18	-	1
Wage rate	+ 0.50%	31	2	1
	- 0.50%	(26)	(2)	(1)

The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another.

Benefit plan asset allocation

The following is a summary of the asset mix of the plans' investments at fair value:

	MHPF		Centra curtailed pension plans	
	2017	2016	2017	2016
Equities	63%	62%	62%	61%
Bonds and debentures	20%	21%	20%	22%
Real estate	11%	11%	11%	11%
Infrastructure	5%	5%	5%	4%
Short-term investments	1%	1%	2%	2%
	100%	100%	100%	100%

Other employee future benefits

Manitoba Hydro also provides some unfunded non-pension employee future benefits including banked incidental days, vacation days, long-term disability, workers compensation, retiree health spending, sick leave vesting and severance. The following table presents information concerning other employee future benefits:

	2017	2016
Balance at beginning of year	271	266
Interest cost	7	7
Current service cost	20	22
Benefit payments	(22)	(24)
Actuarial loss from changes in financial assumptions	2	-
Benefits liability	278	271

Key management personnel

The key management personnel of the corporation have been defined as members of the Manitoba Hydro-Electric Board and Manitoba Hydro's executives. The directors' fees are authorized by the Lieutenant Governor in Council. Manitoba Hydro's executives receive a base salary, in addition to non-cash benefits, employer contributions to the corporation's post-employment defined pension plan and other post-employment benefits.

Key management personnel compensation is as follows:

	2017	2016
Salaries and other short-term employee benefits	3	3
Post-employment benefits*	-	-
	3	3

*Amounts round to less than $1 million.

Note 26 Deferred revenue

	2017	2016
Contributions in aid of construction	455	434
Bipole III contribution	196	100
Deferred revenue	6	3
	657	537
Less: current portion (Note 23)	(4)	(2)
	653	535

Contributions in aid of construction are required from customers whenever the costs of extending service exceed specified construction allowances. These contributions include government grants. Contributions are initially recorded as deferred revenue and are subsequently recognized as revenue over the lives of the related assets.

The PUB has directed that the following percentages of approved rate increases be set aside as a Bipole III contribution to be utilized to mitigate the required rate increases when Bipole III is placed in-service:

- Order 43/13 1.50% of the approved 3.50%
- Order 49/14 0.75% of the approved 2.75%
- Order 73/15 2.15% of the approved 3.95%
- Order 59/16 3.36% of the approved 3.36%

During the year, $96 million (2016 - $51 million) was set aside for this purpose. The period over which this balance will be recognized into net income will be determined by the PUB at a future regulatory proceeding.

Note 27 Provisions

	Mitigation provisions	Asset retirement obligation	Affordable Energy Fund	Other provisions	Total
Balance, April 1, 2015	22	15	6	-	43
Provisions made	-	15	-	-	15
Provisions used	-	-	(2)	-	(2)
Accretion	1	-	-	-	1
Gain on derecognition	-	(3)	-	-	(3)
Balance, March 31, 2016	23	27	4	-	54
Provisions made	32	(20)	-	4	16
Provisions used	-	(1)	-	-	(1)
Accretion	1	1	-	-	2
Balance, March 31, 2017	**56**	**7**	**4**	**4**	**71**

	2017	2016
Analyzed as:		
Current (Note 23)	1	1
Non-current	70	53
	71	54

Mitigation

A provision has been recognized for certain mitigation related obligations arising from ongoing adverse effects of past hydroelectric development. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the reporting date. Once a final settlement is reached, these obligations will be transferred to other long-term liabilities (Note 24).

Discount rates used to determine the present value of mitigation related provisions range from 3.75% to 4.15%.

Subsequent to March 31, 2017, the corporation entered into discussions with a party regarding impacts of transmission development. Discussions are continuing and no agreement has been signed at this time.

Asset retirement obligations

An asset retirement obligation continues to be recognized for the future decommissioning of the Brandon Thermal Generating Station coal pile. The estimate was adjusted as a result of plans to repurpose parts of the station and only remove the coal pile. The corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately $3 million ($2016 - $15 million), which is expected to be incurred in 2019.

The corporation recognizes an asset retirement obligation for the removal and disposal of PCB contaminated fluid in equipment bushings at transmission and distribution stations. The estimated undiscounted cash flows required to settle the asset retirement obligation are approximately $4 million ($2016 - $19 million), which is expected to be incurred by 2024.

No funds are being set aside to settle the asset retirement obligations. The discount rates used to determine the fair market value of asset retirement obligations range from 0.75% to 1.30% (2016 - 3.88% to 3.92%).

Affordable Energy Fund

In accordance with the requirements of *The Winter Heating Cost Control Act*, Manitoba Hydro established an Affordable Energy Fund in the initial amount of $35 million for the purpose of providing funding for projects that would not otherwise be funded by DSM programs. Expenditures of nil ($2016 - $2 million) during the year were charged to operations with the regulatory deferral balance and the provision reduced accordingly.

Other provisions

Other provisions have been established for obligations discovered, which require recognition in the financial statements due to the likelihood of settlement and the presence of an obligation, either from past events or constructive in nature.

Note 28 Non-controlling interests

	2017	2016
Wuskwatim Power Limited Partnership		
Taskinigahp Power Corporation	40	52
Keeyask Hydropower Limited Partnership		
Cree Nation Partners Limited Partnership	78	52
Fox Lake Cree Nation Keeyask Investments Inc.	26	18
York Factory First Nation Limited Partnership	26	18
	130	88
	170	140

Manitoba Hydro has entered into the WPLP with Taskinigahp Power Corporation (TPC) to carry on the business of developing, owning and operating the Wuskwatim Generating Station. TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). The generating station and associated transmission assets were placed into service during the 2012-13 year.

The 33% ownership interest of TPC in the WPLP of $40 million (2016 - $52 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position. TPC's portion of the net loss of the WPLP during 2016-17 is $12 million (2016 - $10 million).

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC for investment in WPLP. As at March 31, 2017, Manitoba Hydro has provided advances to TPC of $88 million (2016 - $88 million). In addition, Manitoba Hydro provides advances on future WPLP distributions to NCN. As at March 31, 2017, Manitoba Hydro has provided advances to NCN of $6 million (2016 - $6 million). The advances plus interest are repayable by TPC through distributions from the WPLP.

Manitoba Hydro has also entered into the KHLP with Tataskweyak Cree Nation (TCN) and War Lake First Nation (War Lake) operating as Cree Nation Partners (CNP), York Factory First Nation (York Factory) and Fox Lake Cree Nation (Fox Lake) to carry on the business of developing, owning and operating the Keeyask Generating Station. Cree Nation Partners Limited Partnership (CNPLP) is owned beneficially by TCN and War Lake through CNP. FLCN Keeyask Investments Inc. (FLCNKII) is owned beneficially by Fox Lake and York Factory First Nation Limited Partnership (YFFNLP) is owned beneficially by York Factory. The generating station is currently under construction and projected to be placed into service in 2021.

The 15% ownership interest of CNPLP, the 5% ownership interest of FLCNKII and the 5% ownership interest of YFFNLP in the KHLP totaling $130 million (2016 – $88 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to CNPLP, FLCNKII and YFFNLP. As at March 31, 2017, Manitoba Hydro has provided advances to CNPLP of $76 million (2016 - $52 million), FLCNKII of $25 million (2016 - $17 million) and YFFNLP of $25 million (2016 - $17 million). The advances plus interest are repayable by CNPLP, FLCNKII and YFFNLP through distributions from the KHLP.

Summarized financial information before intercompany eliminations for WPLP and KHLP are as follows:

	2017	2016
WPLP		
Current assets	13	16
Non-current assets	1 526	1 548
Current liabilities	24	23
Non-current liabilities	1 393	1 383
Revenue	80	86
Net loss	(36)	(31)
KHLP		
Current assets	89	8
Non-current assets	3 202	2 316
Current liabilities	152	169
Non-current liabilities	2 398	1 651

Note 29 Financial instruments

The carrying amounts and fair values of the corporation's non-derivative financial instruments were as follows:

		2017		2016	
	Level	Carrying value	Fair value	Carrying value	Fair value
Fair value through profit and loss					
Cash and cash equivalents	1	646	646	955	955
Loans and receivables					
Accounts receivable and accrued revenue	*	364	364	350	350
Loans and other receivables (including current portion)	2	374	397	322	347
Other financial liabilities					
Accounts payable and accrued liabilities	*	1 087	1 087	722	722
Long-term debt (including current portion)	2	16 438	18 456	14 527	16 948
Mitigation liability (including current portion)	2	209	259	215	259
Major development liability (including current portion)	2	210	244	219	240
Perpetual obligation (including current portion)	2	215	370	215	375

*carried at values that approximate fair value

The fair value measurement of financial instruments is classified in accordance with a hierarchy of three levels, based on the type of inputs used in making these measurements:

Level 1 - Quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs other than quoted prices that are observable in active markets for the asset or liability; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Fair value Level 2 measurements are derived from quoted market yields at the close of business on the consolidated statement of financial position date for similar instruments available in the capital market. There are nominal amounts measured at Level 3 that are based on internally developed valuation models, and consistent with valuation models developed by other market participants in the wholesale power markets. The carrying values of all other financial assets and liabilities approximate their fair values.

Financial risks

During the normal course of business, Manitoba Hydro is exposed to a number of financial risks including credit and liquidity risks and market risk resulting from fluctuations in foreign currency, interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by the corporation and its subsidiaries, to set risk tolerance limits, establish controls

and to monitor risk and adherence to policies. An integrated risk management plan has been developed and reviewed by the Manitoba Hydro-Electric Board to ensure the adequacy of the risk management framework in relation to the risks faced by the corporation. The nature of the financial risks and Manitoba Hydro's strategy for managing these risks have not changed significantly from the prior year.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Manitoba Hydro is exposed to credit risk related to sinking fund investments, temporary investments and pension fund investments. The corporation limits its exposure to credit risk by only investing in government-guaranteed bonds, highly rated investments and well-diversified investment portfolios.

The corporation is also exposed to credit risk related to domestic and export energy sales. Credit risk related to domestic sales is mitigated by the large and diversified electric and gas customer base. Customers participating in residential financing programs are subject to credit reviews and must meet specific criteria before they are approved for a residential loan or financing. Equity loans advanced to Indigenous partners are secured by their ownership investment units in the Wuskwatim and Keeyask Generating Stations. Credit risk in the export power market is mitigated by establishing credit requirements, conducting standard credit reviews of all counterparties and setting and monitoring exposure limits for each of these counterparties. Letters of credit and netting provisions are also in place to further mitigate credit risk. The maximum exposure to credit risk related to domestic and export energy sales is its fair value.

The values of the corporation's aged accounts receivable and related allowance for doubtful accounts are presented in the following table:

	Manitoba	Extraprovincial	2017	2016
Under 30 days	169	29	198	193
31 to 60 days	16	-	16	15
61 to 90 days	7	-	7	8
Over 90 days	28	-	28	25
	220	29	249	241
Allowance for doubtful accounts	(11)	-	(11)	(10)
Total accounts receivable	209	29	238	231

The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged receivables that are considered uncollectible.

(b) Liquidity risk

Liquidity risk refers to the risk that Manitoba Hydro will not be able to meet its financial obligations as they come due. The corporation meets its financial obligations when due through cash generated from operations, short-term borrowings, long-term borrowings advanced from the Province of Manitoba and sinking fund withdrawals.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities as at the consolidated statement of financial position date:

	Carrying value	2018	2019	2020	2021	2022	2023 and thereafter
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	1 087	1 087	-	-	-	-	-
Long-term debt*	16 552	1 228	1 838	1 156	2 063	1 803	23 073
Mitigation liability	209	26	29	18	64	12	353
Major development liability	210	31	15	15	15	15	552
Perpetual obligation	215	16	16	16	16	16	16**
	18 273	2 388	1 898	1 205	2 158	1 846	23 994

*includes current portion and interest payments

**per year in perpetuity

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Manitoba Hydro is exposed to three types of market risk: foreign exchange risk, interest rate risk and commodity price risk associated with the price of electricity and natural gas. Manitoba Hydro continually monitors its exposure to these risks and may use hedges or derivative contracts to manage these risks.

(i) Foreign exchange risk

Manitoba Hydro has exposure to U.S. dollar foreign exchange rate fluctuations primarily through the sale and purchase of electricity in the U.S. and through borrowing in U.S. markets. This exposure is managed through a long-term natural hedge between U.S. dollar cash inflows from export revenues and U.S. dollar cash outflows for long-term coupon and principal payments.

To mitigate annual net income impacts due to foreign exchange rate fluctuations, long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. Accordingly, translation gains and losses for U.S. long-term debt obligations in effective hedging relationships with future export revenues, are recognized in OCI until future hedged U.S. export revenues are realized, at which time the associated gains or losses in AOCI are recognized

in net income. For the year ended March 31, 2017, unrealized foreign exchange translation losses of $47 million (2016 - $47 million losses) were recognized in OCI and net losses of $20 million (2016 - $1 million gain) were reclassified from OCI into net income.

In addition to natural hedging relationships, cross currency swap arrangements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favourable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province of Manitoba with the swapped debt arrangement.

As at March 31, 2017, a change in the Canadian dollar of plus (minus) $0.10 relative to the U.S. dollar would decrease (increase) net income by $7.8 million (2016 - nil), while OCI would increase (decrease) by $120 million (2016 - $125 million).

(ii) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Manitoba Hydro is exposed to interest rate risk associated with temporary investments, floating rate short-term and long-term debt, fixed rate long-term debt maturing within 12 months, less sinking fund withdrawals, offset by the change in interest capitalization. As at March 31, 2017, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $3 million (2016 - $4 million), with no impact to OCI.

Interest rate swap agreements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which payments are based. The Province of Manitoba may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province of Manitoba to the corporation are amended by the swap.

(iii) Commodity price risk

The corporation is exposed to electricity price risk that results from volatility of market prices and natural gas price risk through its purchase of natural gas for delivery to customers throughout Manitoba. The corporation mitigates commodity price risk through its limited use of derivative financial instruments. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

The corporation has entered into commodity derivative contracts as at March 31, 2017. The change in fair value of these contracts is reported as derivatives and carried at fair value on the consolidated statement of financial position in accounts receivable and accrued revenue. The unrealized fair value gains of $1 million (2016 - $1 million) are classified as Level 2 fair value measurements.

Note 30 Capital management

Manitoba Hydro manages its capital structure to ensure that there is sufficient equity to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for capital projects and ongoing operational requirements.

The corporation monitors its capital structure on the basis of its equity ratio. Manitoba Hydro's long-term target is to achieve a minimum equity ratio of 25%.

The corporation's equity ratio was as follows:

	2017	2016
Long-term debt	16 102	14 201
Current portion of long-term debt	336	326
Less: Cash and cash equivalents (Note 13)	(646)	(955)
Net debt	15 792	13 572
Retained earnings	2 899	2 828
Accumulated other comprehensive loss	(709)	(776)
Contributions in aid of construction (Note 26)	455	434
Bipole III contribution (Note 26)	196	100
Non-controlling interest (Note 28)	170	140
Total equity	3 011	2 726
Equity ratio	16%	17%

Manitoba Hydro issues debt for its capital requirements under the authority of *The Manitoba Hydro Act*, *The Loan Act* and *The Financial Administration Act*. *The Manitoba Hydro Act* grants the corporation the power to issue up to $500 million of short-term promissory notes. Manitoba Hydro submits annual requests under *The Loan Act* for the necessary borrowing authority for new capital requirements. Authority to refinance any maturing long-term debt is provided through *The Financial Administration Act*. The majority of Manitoba Hydro's long-term debt is obtained through advances from the Province of Manitoba.

Note 31 Related parties

Manitoba Hydro is a Crown corporation controlled by the Province of Manitoba. As a result, the corporation has a related party relationship with all entities that are controlled, jointly controlled or significantly influenced by the Province of Manitoba. However, as permitted by IAS 24 *Related Party Disclosures*, the corporation is exempt from disclosure requirements relating to transactions with the Province of Manitoba and any other entity that is a related party because the Province of Manitoba has control, joint control or significant influence over both the corporation and the other entity.

Significant transactions with the Province of Manitoba and other related provincial entities consist of:

- Long-term debt – the corporation obtains the majority of its long-term debt through advances from the Province of Manitoba (Note 21).
- Provincial debt guarantee fee – the corporation pays the Province of Manitoba an annual fee on the outstanding debt. The Provincial debt guarantee fee of $136 million (2016 - $122 million) for the year was 1.00% (2016 – 1.00%) of the corporation's total outstanding debt guaranteed by the Province of Manitoba.
- Sale of electricity and natural gas – energy sales to related parties.
- Water rentals – amounts are paid to the Province of Manitoba for the use of water resources in the operation of the corporation's hydroelectric generating stations. Water rental rates during the year were $3.34 per MWh (2016 - $3.34 per MWh) totaling $122 million (2016 - $117 million), and
- Taxes – amounts are paid to the Province of Manitoba for corporate capital tax, payroll tax (Note 11) and provincial sales tax, all of which are incurred in the normal course of business.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Note 32 Commitments and contingencies

Manitoba Hydro has energy purchase commitments of $1 419 million (2016 - $1 454 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts), coal and electricity. Commitments are primarily for wind, which expire in 2038, and natural gas purchases, which expire in 2020. In addition, other outstanding commitments principally for construction are approximately $3 334 million (2016 - $3 511 million).

The corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities and for the phase-out and destruction of PCB mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as asset retirement obligations), a contingent liability exists.

Due to the size, complexity and nature of Manitoba Hydro's operations, various legal and operational matters are pending. Management believes that any settlements related to these matters will not have an adverse effect on Manitoba Hydro's consolidated financial position or results of operations.

Manitoba Hydro provides guarantees to counterparties as part of its use of natural gas derivative commodity contracts. Guarantees issued as at March 31, 2017 totaled $313 million (2016 - $368 million) and do not have specific maturity dates. Letters of credit in the amount of $74 million (2016 - $68 million) have been issued for construction and energy related transactions with maturities until 2049.

Note 33 Segmented information

Operating segments are reported consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the President and Chief Executive Officer. The corporation is managed as three segments, electricity operations, natural gas operations and all other segments, based on how financial information is produced internally for the purposes of making operating decisions.

Segment descriptions

Electric Operations
Electric operations derives its revenue from the sale of electricity in both Manitoba and to the export markets. Manitoba Hydro's electric operations also includes subsidiaries WPLP, KHLP and 6690271 Manitoba Ltd. Electricity is sold in Manitoba to residential, commercial and industrial customers while extraprovincial sales of electricity are to the U.S. and Canadian markets. Domestic electricity sales are regulated by the PUB.

Natural Gas Operations
The operations of Centra make up the entire natural gas operations segment. Centra is regulated by the PUB and generates revenue through the sale and distribution of natural gas to residential, commercial and industrial customers throughout Manitoba.

All Other Segments

All other segments includes the operations of all other subsidiaries of the corporation, including MHI, MHUS, Minell and Teshmont.

MHI derives its revenue by providing professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

MHUS generates revenue by providing meter reading, interactive voice response systems and contracted services primarily to Manitoba Hydro and Centra.

Minell operates a pipeline transmission system extending from Moosomin, Saskatchewan to Russell, Manitoba and is regulated by the National Energy Board. Revenues are derived through the rentals of Minell's gas transmission facilities to Centra as they are used solely for the transportation of natural gas on behalf of Centra.

Teshmont is a holding company established to acquire a 40% ownership of Teshmont Consultants Limited Partnership, which carries on a high voltage engineering and consulting practice.

Segmented results

Results by operating segment for the years ended March 31, 2017 and 2016 are shown below. Intersegment eliminations are presented to reconcile segment results to the corporation's consolidated totals. Eliminations have been made for intersegment transactions and balances.

	Electric operations		Natural gas operations		All other segments		Eliminations		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Revenues										
External revenue	**1 927**	1 845	**344**	355	**56**	58	**-**	-	**2 327**	2 258
Intersegment revenue	**-**	-	**1**	1	**9**	9	**(10)**	(10)	**-**	-
	1 927	1 845	**345**	356	**65**	67	**(10)**	(10)	**2 327**	2 258
Expenses										
Cost of gas sold	**-**	-	**183**	181	**-**	-	**-**	-	**183**	181
Finance expense	**608**	582	**19**	20	**-**	-	**18**	18	**645**	620
Operating and administrative	**536**	543	**65**	67	**17**	16	**(10)**	(12)	**608**	614
Depreciation and amortization	**375**	367	**23**	23	**2**	1	**2**	3	**402**	394
Water rentals and assessments	**131**	126	**-**	-	**-**	-	**-**	-	**131**	126
Fuel and power purchased	**132**	117	**-**	-	**-**	-	**-**	-	**132**	117
Capital and other taxes	**119**	107	**16**	16	**-**	-	**-**	-	**135**	123
Other expenses	**60**	65	**12**	10	**35**	42	**(3)**	(3)	**104**	114
Finance income	**(17)**	(22)	**-**	-	**-**	(1)	**-**	-	**(17)**	(23)
Corporate allocation	**8**	8	**12**	12	**-**	-	**(20)**	(20)	**-**	-
	1 952	1 893	**330**	329	**54**	58	**(13)**	(14)	**2 323**	2 266
Net income (loss) before net movement in regulatory deferral balances	**(25)**	(48)	**15**	27	**11**	9	**3**	4	**4**	(8)
Net movement in regulatory deferral balances	**66**	75	**(11)**	(28)	**-**	-	**-**	-	**55**	47
Net Income (Loss)	**41**	27	**4**	(1)	**11**	9	**3**	4	**59**	39
Net income (loss) attributable to:										
Manitoba Hydro	**53**	37	**4**	(1)	**11**	9	**3**	4	**71**	49
Non-controlling interests	**(12)**	(10)	**-**	-	**-**	-	**-**	-	**(12)**	(10)
	41	27	**4**	(1)	**11**	9	**3**	4	**59**	39

	Electric operations		Natural gas operations		All other segments		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Total assets	21 271	18 839	617	581	85	71	(201)	(198)	21 772	19 293
Total regulatory deferral debit balances	462	390	104	96	-	-	-	-	566	486
Total liabilities	19 474	17 125	503	482	15	13	(91)	(85)	19 901	17 535
Total regulatory deferral credit balances	49	43	28	9	-	-	-	-	77	52
Retained earnings	2 749	2 696	69	65	69	57	12	10	2 899	2 828

Note 34 Comparative figures

Where appropriate, comparative figures for 2016 have been reclassified in order to conform to the presentation adopted in 2017.

Financial statistics

For the year ended March 31	IFRS			CGAAP						
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
						(dollars are in millions)				
Revenues										
Domestic Electric	1 419	1 299	1 424	1 406	1 341	1 193	1 200	1 145	1 127	1 074
Gas	342	353	427	413	328	328	403	452	578	526
Extraprovincial	460	415	384	402	329	333	358	385	533	555
Other	106	91	81	72	70	46	42	29	36	25
	2 327	2 258	2 316	2 292	2 068	1 900	2 003	2 011	2 274	2 180
Expenses										
Cost of gas sold	183	181	266	252	182	197	261	316	431	386
Finance expense	645	620	551	490	489	423	425	410	471	440
Operating and administrative	608	614	614	568	533	481	463	440	429	381
Depreciation and amortization	402	394	398	442	421	381	393	384	368	349
Water rentals and assessments	131	126	126	125	118	119	120	121	123	124
Fuel and power purchased	132	113	129	140	109	116	66	62	26	64
Capital and other taxes	135	123	115	117	105	103	102	99	87	80
Other expenses	104	114	77	36	30	19	23	16	13	10
Finance income	(17)	(20)	(26)	-	-	-	-	-	-	-
	2 323	2 266	2 229	2 140	1 989	1 839	1 853	1 848	2 008	1 834
Net income before net movement in regulatory accounts	4	(8)	87	152	79	61	150	163	266	346
Net movement in regulatory accounts	55	47	38	-	-	-	-	-	-	-
Net Income	59	39	125	152	79	61	150	163	266	346
Net income (loss) attributable to:										
Manitoba Hydro	71	49	136	174	92	61	150	164	266	346
Non-controlling interests	(12)	(10)	(11)	(22)	(13)	-	-	-	-	-
	59	39	125	152	79	61	150	164	266	346
Assets										
Property, plant and equipment	19 757	17 208	15 222	13 629	12 508	11 797	10 954	10 128	9 382	8 505
Sinking fund investments	-	-	114	111	352	772	282	822	666	712
Current and other assets	2 015	2 085	1 821	1 901	1 682	1 622	1 646	1 487	1 499	2 311
Regulatory deferral debits	566	486	410	-	-	-	-	-	-	-
	22 338	19 779	17 567	15 639	14 542	13 791	12 882	12 437	11 547	11 566
Liabilities and Equity										
Long-term debt	16 102	14 201	12 383	10 460	9 329	9 101	8 617	8 228	7 668	7 218
Current and other liabilities	3 146	2 799	2 603	1 913	1 937	1 495	1 127	1 328	1 637	2 097
Deferred revenue	653	535	459	381	340	318	295	295	296	300
Regulatory deferral credits	77	52	23	-	-	-	-	-	-	-
Non-controlling interests	170	140	120	72	96	100	87	62	39	24
Retained earnings	2 899	2 828	2 779	2 716	2 542	2 450	2 389	2 239	2 076	1 822
Accumulated other comprehensive income (loss)	(709)	(776)	(720)	96	299	327	367	285	(169)	105
	22 338	19 779	17 567	15 639	14 542	13 791	12 882	12 437	11 547	11 766
Cash Flows										
Operating activities	872	784	665	691	589	567	595	589	628	633
Financing activities	1 855	2 111	1 560	1 125	635	725	674	1 124	424	487
Investing activities	(3 036)	(2 414)	(1 873)	1 706	1 242	1 312	1 373	1 698	1 086	988
Financial Indicators										
Equity ratio [1]	16%	17%	18%	24%	25%	26%	27%	27%	23%	27%
Interest coverage [2]	1.54	1.57	1.73	1.95	1.81	1.74	1.96	2.06	2.16	2.43
Capital coverage [3]	1.48	1.37	1.20	1.35	1.25	1.11	1.25	1.14	1.77	1.62

[1] Equity ratio represents equity (retained earnings plus accumulated other comprehensive income plus contributions in aid of construction plus non-controlling interest) divided by equity plus debt (long-term debt plus notes payable minus sinking fund investments and temporary investments).

[2] Interest coverage represents earnings before finance expense and depreciation and amortization divided by finance expense.

[3] Capital coverage represents internally generated funds divided by capital construction expenditures.

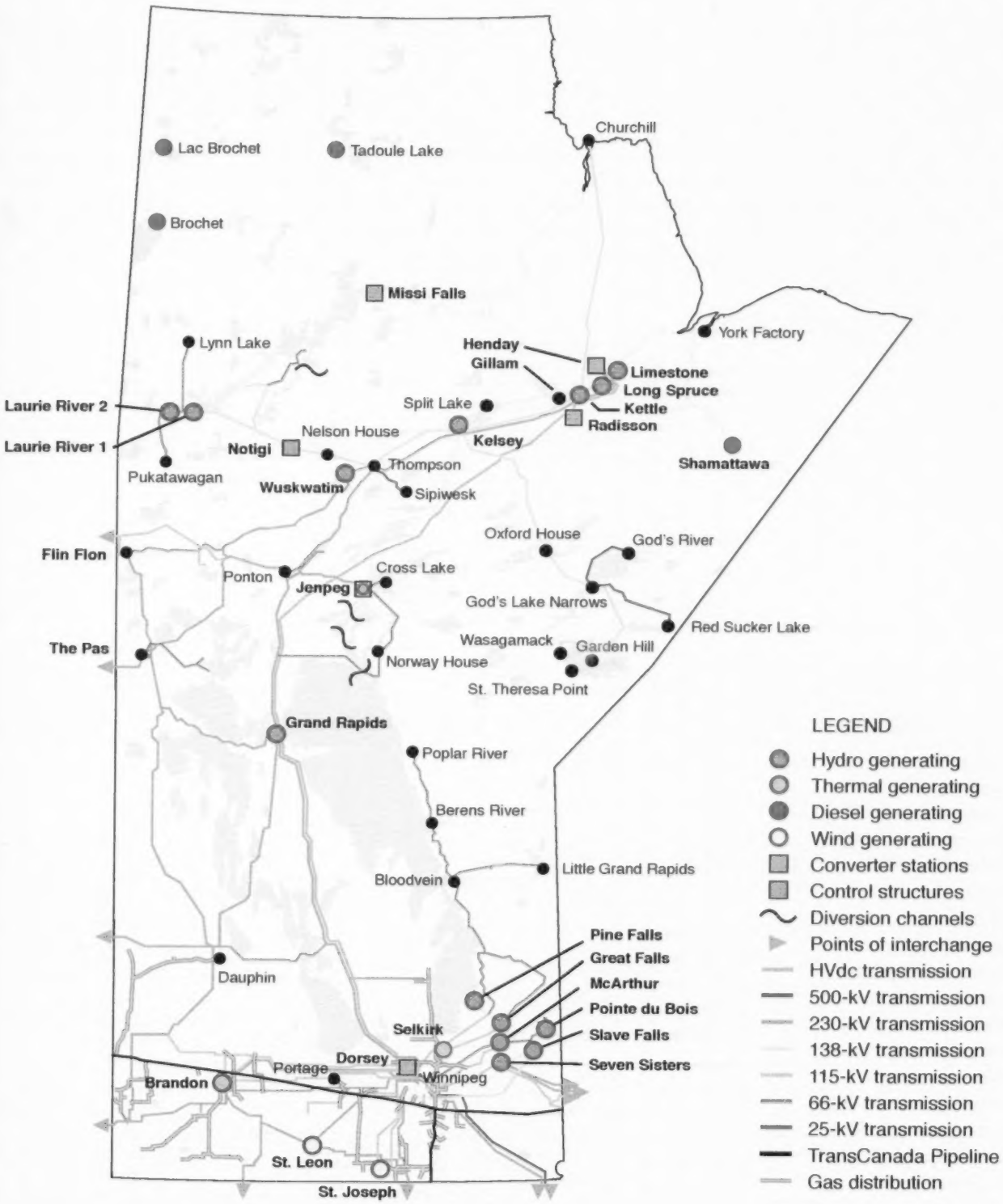
Operating statistics

For the year ended March 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Electric System Capability										
Capability (000 kW)	5 679	5 680	5 691	5 715	5 675	5 495	5 489	5 501	5 480	5 465
Manitoba firm peak demand (000 kW)	4 801	4 460	4 688	4 720	4 535	4 343	4 261	4 359	4 477	4 273
Per cent change	7.6	(4.9)	(0.7)	4.1	4.4	1.9	(2.2)	(2.6)	4.8	2.1
Electric System Supply										
Total energy supplied (millions of kWh)	36 433	34 990	35 044	35 392	33 230	33 235	34 102	33 961	34 528	35 264
Generation	15	14	15	14	14	14	13	13	13	12
Isolated systems	36 448	35 004	35 059	35 406	33 244	33 249	34 115	33 974	34 541	35 276
Electric Load at Generation (millions of kWh)										
Integrated system	25 144	24 566	25 399	25 510	24 650	23 499	23 783	23 296	24 285	23 985
Isolated system	15	14	15	14	14	14	13	13	13	12
	25 159	24 580	25 414	25 524	24 664	23 513	23 796	23 308	24 298	23 997
Per cent change	2.4	(3.3)	(0.4)	3.5	4.9	(1.2)	2.1	(4.1)	1.3	2.8
Electric System Deliveries (millions of kWh)										
Energy delivered in Manitoba										
Residential	7 250	7 191	7 288	7 388	7 134	6 930	7 060	6 899	6 964	6 838
Commercial / Industrial	14 710	14 473	14 670	14 450	14 143	13 840	13 727	13 587	14 256	14 223
	21 960	21 664	22 458	22 338	21 477	20 770	20 787	20 486	21 220	21 061
Extra-provincial	11 271	10 281	9 811	10 539	9 087	10 244	10 344	10 860	10 122	11 086
	33 231	31 935	32 269	32 875	30 564	31 014	31 131	31 346	31 332	32 147
Gas Deliveries (millions of cubic metres)										
Residential	524	498	590	664	607	508	593	581	666	682
Commercial / Industrial	801	748	870	984	849	728	821	803	866	856
Transportation	661	600	604	652	598	629	584	619	603	618
	1 986	1 846	2 071	2 280	2 049	1 866	1 998	2 003	2 135	2 156
Number of Customers										
Electric										
Residential	503 167	497 699	492 795	486 654	480 254	474 663	469 635	465 055	460 804	455 430
Commercial / Industrial	70 271	69 935	69 594	69 106	68 520	68 020	67 664	67 304	66 668	66 169
	573 438	567 634	561 869	555 760	548 774	542 683	537 299	532 359	527 472	521 599
Gas										
Residential	253 357	251 142	249 113	247 010	244 768	242 211	241 123	239 515	239 597	237 724
Commercial / Industrial	25 911	25 716	25 504	25 218	25 018	24 886	24 838	24 966	23 411	23 435
	279 268	276 858	274 817	272 228	269 786	267 699	265 961	264 381	263 008	261 159
Full Time Equivalent (FTE) [1]	6 411	6 410	6 487	6 556	6 463	6 413	6 394	6 236	6 180	5 841

[1] Regular FTEs (the straight time hours of work for one employee) for Manitoba Hydro, excluding subsidiaries.

Major electric & natural gas facilities



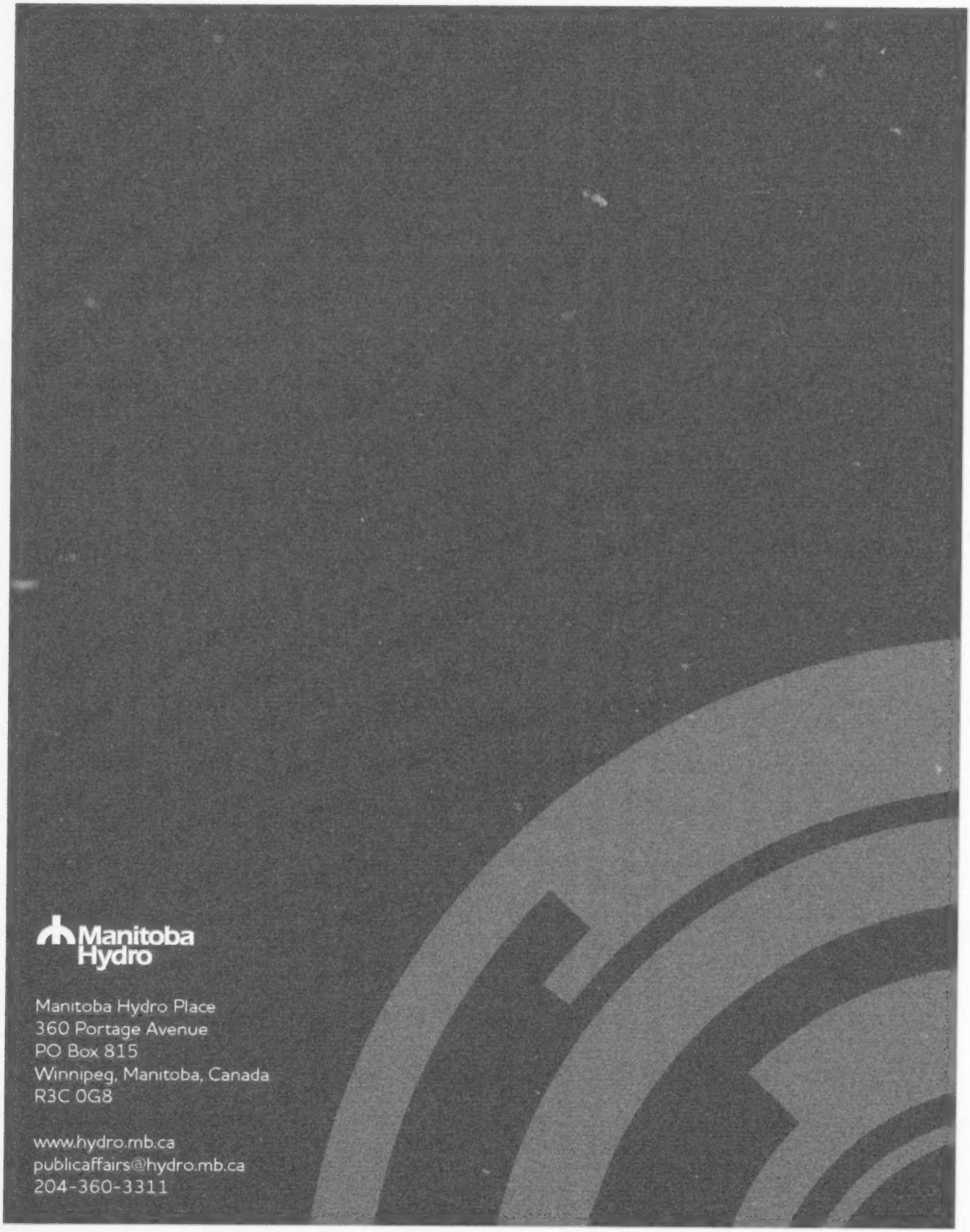
Sources of electrical energy generated & purchased

For the Year Ended March 31, 2017

Nelson River	75.81 %	Saskatchewan River	6.23 %	Thermal	0.11 %
Billion kWh generated	28.4	Billion kWh generated	2.3	Billion kWh generated	0.0
Limestone	26.22 %	Grand Rapids	6.23 %	Brandon	0.09 %
Kettle	23.32 %			Selkirk	0.02 %
Long Spruce	18.26 %	Laurie River	0.14 %		
Kelsey	5.61 %	Billion kWh generated	0.1	Imports (excl. wind)	0.24 %
Jenpeg	2.39 %	Laune River 1	0.07 %	Billion kWh purchased	0.1
		Laune River 2	0.07 %		
Winnipeg River	11.04 %			Wind	2.61 %
Billion kWh generated	4.1	Burntwood River	3.82 %	Billion kWh purchased	1.0
Seven Sisters	3.47 %	Billion kWh generated	1.4		
Great Falls	2.66 %	Wuskwatim	3.82 %		
Pine Falls	1.65 %				
Pointe du Bois	0.74 %				
Slave Falls	1.29 %				
McArthur	1.23 %				

Manitoba Hydro generating stations & capabilities

Interconnected Capabilities			
Station	Location	Number of units	Net Capability (MW)
Hydraulic			
Great Falls	Winnipeg River	6	129
Seven Sisters	Winnipeg River	6	165
Pine Falls	Winnipeg River	6	83
McArthur	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	75
Slave Falls	Winnipeg River	8	68
Grand Rapids	Saskatchewan River	4	479
Kelsey	Nelson River	7	295
Kettle	Nelson River	12	1220
Jenpeg	Nelson River	6	91
Long Spruce	Nelson River	10	980
Limestone	Nelson River	10	1350
Laune River (2)	Laune River	3	10
Wuskwatim	Burntwood River	3	213
Thermal			
Brandon		3	331
Selkirk		2	125
Isolated Capabilities			
Diesel			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Generating Capability			5 679



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